

Federal Communications Commission



**Office of the Inspector General
Semiannual Report to Congress
October 1, 2005 – March 31, 2006**

**Kent R. Nilsson
Acting Inspector General**

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: April 30, 2006

REPLY TO
ATTN OF: Inspector General

SUBJECT: Semiannual Report

TO: Chairman, Federal Communications Commission

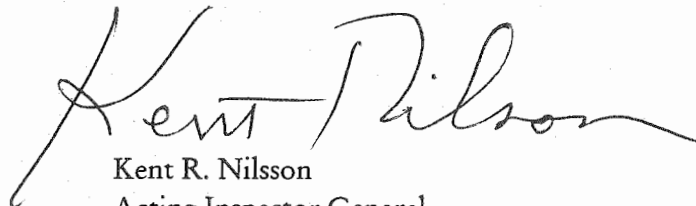
In compliance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. 3, § 5, I respectfully submit the Office of Inspector General (OIG) Semiannual Report summarizing the activities and accomplishments of the OIG during the six-month period ending March 31, 2006. In accordance with Section 5(b) of the Act, this Semiannual Report, along with the report that you prepare as Chairman of the Federal Communications Commission (FCC), should be forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

During this reporting period, as in the previous one, OIG activity continued to focus on the Universal Service Fund activities in an effort to address continuing allegations of waste and fraud. Our efforts in this area have been summarized in a special section of this report entitled "Oversight of the Universal Service Fund."

This report describes audits that are in process, as well as those that have been completed during the preceding six months including the annual FCC financial statement audit, information technology audits, and several audits of contractors and contractual activities.

OIG investigative personnel continued to address issues referred to, or initiated by, this office. Where appropriate, investigative reports have been forwarded to management for action.

This office is committed to maintaining the highest possible level of professionalism and quality in its audits, investigations and consultations. Please let me know if you have any questions or comments.



Kent R. Nilsson
Acting Inspector General

Enclosure

cc: Chief of Staff
Acting Managing Director

Table of Contents

Introduction.....	2
Universal Service Fund (USF).....	3
Audits.....	7
Management.....	21
Investigations.....	22
Legislation.....	24
IG Hotline.....	25
Specific Reporting Requirements of the Inspector General Act.....	27
OIG Reports With Questioned Costs.....	29
OIG Reports With Recommendations That Funds Be Put To Better Use.....	30

Introduction

The Federal Communications Commission (FCC) is an independent regulatory agency, which was delegated authority by Congress under the Communications Act of 1934, as amended, in principal part, by the Telecommunications Act of 1996 as well as antecedent legislation (collectively, the "Act"). The FCC is charged with the regulation of interstate and international communication by radio, television, wire, satellite and cable. The FCC's jurisdiction covers the fifty states, the District of Columbia and all U.S. territories. Under Section 1 of the Communications Act, the FCC was created for the purpose of regulating interstate and foreign commerce so as to make available, so far as possible, a rapid, efficient, nationwide and worldwide wire and radio communication service with adequate facilities at reasonable charges to all of the people in the United States and its Territories. . The FCC performs four major functions in addressing this responsibility.

- Spectrum allocation
- Creating rules to promote fair competition and protect consumers where required by market conditions
- Authorization, and continuation, of service
- Enforcement of the Communications Act and rules and regulations that implement the Act

The FCC is composed of a Chairman and four Commissioners, who are appointed by the President and confirmed by the Senate. Kevin J. Martin was designated Chairman on March 18, 2005. Jonathan S. Adelstein, Michael J. Copps and Deborah Taylor Tate serve as Commissioners. Most of the FCC's employees are located in Washington, D.C. at the Portals II building, which is located at 445 12th St., S.W., Washington, D.C. 20554 FCC field offices and resident agents are located throughout the United States.

The Office of Inspector General (OIG) is dedicated to assisting the Commission as it continues to improve its effectiveness and efficiency. The former Inspector General, H. Walker Feaster III, retired on January 3, 2006. The Acting Inspector General (IG), Kent R. Nilsson was appointed on January 6, 2006, and reports directly to the Chairman. The OIG staff consists of twelve professionals and a student intern. Principal assistants to the IG are: Jon R. Stover, Acting Deputy Inspector General; David L. Hunt, Assistant Inspector General (AIG) for Investigations/General Counsel; Steven Rickrode, AIG for Audits; William A. Hill, Jr., AIG for Universal Service Fund Oversight; Thomas Cline, AIG for Policy and Planning, and Thomas Holleran; AIG for Management.

This semiannual report includes the major accomplishments and activities of the OIG during the period from October 1, 2005 through March 31, 2006.

Universal Service Fund (USF)

Independent Oversight of the Universal Service Fund (USF)

Beginning with the Inspector General's semiannual report for the period ending March 31, 2002, the Inspector General ("IG") has included a section highlighting the office's efforts to implement effective, independent oversight of the Universal Service Fund (USF)¹. Due to its materiality and our assessment of its audit risk, the office has focused much of its attention on the USF mechanism for funding telecommunications and information services for schools and libraries, which is also known as the "Schools and Libraries Program" or the "E-rate" program.

In this report, we provide an update on our oversight activity during the most recent six month reporting period. Specifically, we provide an update on OIG oversight activities; provide an update on audits being conducted by other Federal Offices of Inspector General; and summarize other significant investigative activity.

Update on OIG Oversight Activities

As discussed in previous semiannual reports, the primary obstacle to an effective, independent oversight program has been, and continues to be, inadequate audit and investigative resources so that OIG can conduct its own audits and provide adequate audit support to investigations. This continues to be true despite the efforts of Chairman Martin to provide modern, up-to-date equipment and support, and his request to the Congress for additional funding to support the work of this office. Inadequate investigative and internal audit resources have prevented the OIG from fully completing the body of work it believes is essential to assessing fraud, waste, and abuse. In addition, inadequate resources have made it difficult for the OIG to provide appropriate support to federal law enforcement in investigations of fraudulent activity in the E-rate program. In the last semiannual report, the IG was able to state that progress had been achieved with the addition of two (2) additional audit staff to the USF audit and investigations team. And, although the IG had been advised by then-Chairman Powell's office that the OIG would receive two (2) additional staff for USF oversight, the office did not receive any new staff resources. Since our last discussion with the former Chairman Powell, the President designated Kevin J. Martin as the new Chairman of the Commission. Beginning with the Commission's FY 2007 budget submission, Chairman Martin requested that the OIG be given twelve (12) additional FTEs and up to \$20,480,000 funded through USF program receipts. That request is currently pending before Congress. Until that request for new staff resources is addressed, we continue our oversight responsibilities with the limited resources on hand.

In this office's last semiannual report to the Congress, we reported that we had been working with USAC since the summer of 2004 to establish a three-way contract under which the OIG and USAC could obtain audit resources to conduct USF audits to fulfill the statutory requirements required of the Commission as mandated by the Improper Payments Improvement Act of 2002 (IPIA). The FCC's IG and USAC completed the contractor selection process and a

¹ The USF is generated through contributions from providers of interstate telecommunications, including local and long distance phone companies, wireless and paging companies, and pay phone providers. The Universal Service Administrative Company (USAC) administers the USF under regulations promulgated by the Federal Communications Commission (FCC).

Universal Service Fund (USF)

public accounting firm was selected to conduct USF audits at the end March, 2005. In April 2005, the USAC Board of Director's approved the vendor selections recommended by the FCC's IG and the USAC review team. In August 2005, the IG was advised that the Chairman had approved the three-way plan. The Commission's General Counsel issued a memorandum, dated August 19, 2005, in which he identified problems with the vendor selection process. After discussing these issues with management, the IG decided to support reprocuring the procurement to ensure that USAC obtains an independent audit firm (working under the oversight and with input from the OIG) based on competitive procurement principles modeled on the Federal Acquisition Regulations. Currently, USAC has under contract a statistician from George Mason University, who is developing an optimal sampling design for each of the four universal service programs as well as a sampling design to determine whether contributors are being properly charged. As these sampling methodologies are being formulated, the OIG is working closely with USAC to develop multiple requests for proposal (RFPs) so that each audit firm will be able to bid upon clearly defined auditing tasks. We expect to release all RFPs during the third quarter of FY 2006.

While the competitive bidding process takes shape, the OIG and USAC continue to exercise oversight roles of the schools and libraries program to prevent fraud, waste and abuse. In this context, the acting IG encouraged USAC to exercise KPMG LLP's final option for services in regard to another round of schools and libraries audits. This body of work will continue to be developed while KPMG LLP is finishing its last round of one hundred (100) audits. To date KPMG has issued eighty-five (85) reports in draft and thirty-nine (39) of these drafts have undergone the OIG's quality assurance review and have been presented to the appropriate parties for responses.

In addition to all the USF work efforts underway, the Commission is considering making changes in the roles and responsibilities of certain Bureaus and Offices, including the OIG. Certain functions have been reorganized to meet the Commission's on-going goals of making the administration of the USF more efficient and effective. These changes may have a significant impact on the roles and responsibilities of the OIG regarding USF oversight. In addition, with the retirement of H. Walker Feaster III, the former IG, the Chairman has appointed a new Acting IG and created a new acting Deputy IG position. The new Acting IG has made several key appointments including a new Assistant IG for Investigations and a new Assistant IG for USF Oversight. Chairman Martin has also provided communications equipment as well as computer hardware and software to support the field work of the OIG's auditors, investigators, and attorneys and has increased the training budget and travel funding in the office of the acting Inspector General.

Universal Service Fund (USF)

Audits Conducted by Other Federal Offices of Inspector General

On January 29, 2003, the IG executed a Memorandum of Understanding (MOU) with the Department of the Interior (DOI) OIG. This MOU was a three-way agreement among the Commission, DOI OIG, and USAC for audits of schools and libraries funded by the Bureau of Indian Affairs and other universal service support beneficiaries under the audit cognizance of DOI OIG. Under the agreement, auditors from DOI OIG perform audits for USAC and the FCC OIG. In addition to audits of schools and libraries, the agreement allows for the DOI OIG to consider requests for investigative support on a case-by-case basis. DOI OIG has recently submitted two audits to the OIG. One was an audit of the Bureau of Indian Affairs and the other was an audit of the Virgin Islands Department of Education. These audits have been completed and provided to the OIG staff. The OIG is currently reviewing these audits and performing the necessary quality assurance review. We expect these audits to be issued in FY 2006.

We have also established a working relationship with the Office of Inspector General at the Education Department (Education OIG). In January 2004, Education OIG presented a plan for an audit of telecommunication services at the New York City Department of Education (NYCDOE). Because of the significant amount of E-rate funding for telecommunication services at NYCDOE, Education OIG has proposed that they be reimbursed for this audit under a three-way MOU similar to the existing MOU with DOI OIG. In April 2004, the Universal Service Board of Directors approved the MOU. In June 2004, the MOU was signed and the audit was initiated. The Education OIG held an exit conference with the NYCDOE on September 29, 2005 and forwarded its audit findings to us during February, 2006. We anticipate issuing a final report in FY 2006.

Support to Investigations

In addition to the audit component of our oversight program, we have provided, and continue to provide, audit support to a number of investigations of E-rate recipients and service providers. To implement the investigative component of our plan, we developed a working relationship with the Antitrust Division of the Department of Justice (DOJ). The Antitrust Division, in turn, has established a task force to conduct USF investigations that is comprised of attorneys in each of the Antitrust Division's seven field offices and the National Criminal Office. As of the end of this reporting period, we are supporting twenty-four (24) investigations and monitoring an additional eleven (11) investigations.

As we discussed in the section that updated OIG oversight activities, the OIG has been working with USAC since the summer of 2004 to establish a three-way contract under which the OIG and USAC can obtain audit resources to conduct USF audits. In addition to providing resources to conduct audits, the three-way agreement also contemplated providing support to criminal investigations of E-rate and USF fraud. As a result of delays that have been encountered in establishing the three-way agreement, the FCC OIG has struggled in its efforts to provide adequate investigative support to federal law enforcement.

Universal Service Fund (USF)

Significant accomplishments in investigative support include indictments, convictions, fines and negotiated settlements. Following are major accomplishments during the reporting period for which the OIG provided support:

- In October 2005, the United States Attorney's Office for the Northern District of California announced that Evertec Inc. agreed to pay \$4.8 million to settle allegations that the corporation (while known as GM Group, Inc.) violated the civil False Claims Act by claiming funds under the FCC's E-rate program for goods and services that were ineligible for E-rate funding. The company also agreed to cooperate with the United States in any investigation related to its participation in the E-rate program and to implement an ethics and compliance program.
- In January 2006, a federal grand jury in the United States District Court for the Eastern District of California indicted two individuals, Gregory Paul Styles and Marvin Mitchell Freeman, on twenty-two (22) violations for the purpose of defrauding the E-rate program in the Chowchilla Elementary School District. The defendants are charged with:
 - Conspiracy to defraud
 - Mail fraud and aiding and abetting (two counts)
 - Honest services mail fraud and aiding and abetting (two counts)
 - Conspiracy to launder money
 - Money laundering and aiding and abetting (15 counts under various sections of 18 U.S.C. § 1956)

Conclusion

Our involvement in E-rate beneficiary audits and investigations has not lessened our concerns about fraud, waste, and abuse in Universal Service Fund programs. We remain committed to meeting our statutory responsibility to provide effective, independent oversight of the Universal Service Fund program. We believe we are making significant progress toward achieving our goal of designing, and eventually implementing, an effective oversight program. However, as noted above, a lack of adequate resources continues to impede our ability to provide effective, independent oversight of the E-rate program and the other programs that are financed through the Universal Service Fund.

Audits

- I. **Financial statement audits provide assurance about whether an agency's financial statements present fairly the financial position, results and costs of operations. In addition the financial statement audit reports on the internal controls over financial reporting, and compliance with certain applicable laws and regulations.**

1. **Audit of the Federal Communications Commission Fiscal Year 2005 Consolidated Financial Statements (Report No. 05-AUD-04-03 issued on November 15, 2005)**

As required by the Accountability of Tax Dollars Act of 2002, the FCC prepared consolidated financial statements in accordance with Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, amended, and presented them for audit. The Chief Financial Officers Act of 1990 (CFO Act), amended, requires the FCC OIG, or an independent external auditor as determined by the Inspector General, to audit agency financial statements in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Under a contract monitored by the OIG, Clifton Gunderson, LLP (hereinafter, "CG"), an independent certified public accounting firm, performed an audit of the FCC's FY 2005 consolidated financial statements in accordance with required standards, including OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statement*, amended and applicable sections of the *U.S. Government Accountability Office (GAO)/President's Council on Integrity & Efficiency (PCIE) Financial Audit Manual*.

The results of the audit are contained in three independent auditor's reports, prepared by CG and dated November 1, 2005, the last day of CG's field work. The highlights of each report have been summarized below. In general, the Commission's management agreed with the findings and supported the recommendations that were contained in those reports.

Independent Auditor's Report – Opinion on the Financial Statements

In its report dated November 1, 2005, CG was not able to express an opinion on FCC's financial statements as of September 30, 2005. CG stated that it was not able to apply all necessary auditing procedures to complete an audit in accordance with applicable standards and OMB Bulletin No. 01-02, therefore, the scope of work was not sufficient to enable them to express an opinion.

Independent Auditor's Report on Internal Control over Financial Reporting

In performing its testing of internal controls necessary to achieve the objectives stated in OMB Bulletin No. 01-02, CG identified significant deficiencies in the design and operation of the FCC's internal controls that, in its judgment, could adversely affect the FCC's ability to record, process, summarize, and report financial data accurately. These deficiencies were categorized as material weaknesses and, accordingly, were treated as reportable conditions according to the definitions that are used by the American Institute of Certified Public Accountants.

Audits

Material weaknesses occur where the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that material misstatements in the financial statements could occur and not be detected within a timely period by the employees in the normal course of performing their assigned functions. CG identified material weaknesses in the areas of:

- Control Environment Changes
- Component Entities' Financial Reporting Controls
- Auction Transactions
- FCC Contingency Plans

CG also identified several reportable conditions that are not considered to be material weaknesses, which include:

- Financial Reporting
- Cost Accounting
- Reconciliation of Intragovernmental Transaction Balances
- Payroll and Personnel Activities
- Debt Collection Improvement Act
- Electronic Data Processing Controls
- Federal Managers' Financial Integrity Act of 1982 Compliance and Reporting

Independent Auditor's Report on Compliance with Laws and Other Matters

The FCC's management is responsible for complying with laws and regulations applicable to the agency. To ascertain whether the FCC's financial statements are free of material misstatements, CG performed tests of compliance with certain provisions of federal laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and other matters specified in OMB Bulletin No. 01-02 (which includes the requirements referred to in the Federal Financial Management Improvement Act of 1996). CG limited its tests of compliance to those provisions and did not test compliance with all laws and regulations applicable to FCC.

CG's tests disclosed instances of noncompliance with specific laws and regulations required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02 as follows:

- Chief Financial Officers Act of 1990
- Antideficiency Act
- OMB Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*
- Debt Collection Improvement Act of 1996
- Federal Financial Management Improvement Act of 1996

Audits

2. Report on the Federal Communications Commission Fiscal Year 2005 Special-Purpose Financial Statements (Audit Report No. 045-AUD-04-06 issued on November 17, 2005)

The FCC prepares special-purpose financial statements to assist in the preparation and audit of the *Financial Report of the United States (FR)* using the Governmentwide Financial Reports System (GFRS) and the Federal Agencies' Centralized Trial-Balance System (FACTS I). These statements, which are required by the U.S. Department of the Treasury *Treasury Financial Manual (TFM)*, Volume I, Part 2, Chapter 4700, are not intended to be a complete presentation of the FCC's financial statements.

As required by TFM, 4705.55 - *Audit Requirements for the Closing Package*, the OIG obtained an audit of these special-purpose financial statements in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States under a contract monitored by the OIG. Clifton Gunderson, LLP ("CG") performed the audit of related FY 2005 special-purpose financial statements in conjunction with the FCC's FY 2005 general purpose financial statement audit, (referred to above as the audit of FCC's consolidated financial statements.)

Because CG was not able to apply all necessary auditing procedures to audit the general purpose financial statements in accordance with auditing standards and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*. As a consequence, CG issued a disclaimer of opinion on the reclassified statements as of, and for, the year ended September 30, 2005. The special purpose financial statements and accompanying notes as of, and for, the year ended September 30, 2004 were also audited and obtained an unqualified opinion on the reclassified balance sheet, and related reclassified statements of net cost and changes in net position. One note of the Financial Report Notes and Detail Report received a qualified opinion because the accuracy and completeness of undelivered orders could not be determined.

After performing the internal control testing necessary to achieve compliance with the objectives contained in Chapter 4700 of the TFM, CG found no material weaknesses over the financial reporting process for the special-purpose financial statements. In addition, Clifton Gunderson's tests of compliance with TFM Chapter 4700 requirements disclosed no material instances of noncompliance that were required to be reported under *Government Auditing Standards* or under OMB Bulletin No. 01-02. Commission management generally agreed with the results of the audit.

Audits

3. Report on the Federal Communications Commission Fiscal Year 2005 Agreed-Upon Procedures on Federal Intragovernmental Activity and Balances (Report No. 05-AUD-04-07, issued on December 2, 2005)

In accordance with *Treasury Financial Manual (TFM) 4705.75, IG Agreed-Upon Procedures for Federal Intragovernmental Activity and Balances*, OIG obtained an attestation examination using the agreed-upon procedures for the purpose of assisting the Department of the Treasury's Financial Management Service in the preparation of, and the GAO in the audit of, the consolidated financial statements of the U. S. Government as of, and for the year ended, September 30, 2005. Under a contract monitored by the OIG, Clifton Gunderson, LLP (CG), an independent certified public accounting firm, performed the agreed-upon procedures engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States. The adequacy and sufficiency of the procedures are solely the responsibility of the Financial Management Service, GAO, and OMB. Accordingly, CG made no representation regarding the sufficiency of these procedures.

CG performed the agreed-upon procedures and reported on findings and differences related to intragovernmental activities between the closing package, which is submitted to GAO for inclusion in the consolidated financial statements, and the FCC's unaudited financial statements and general ledgers. The report was issued December 2, 2005 in accordance with Treasury Financial Manual requirements.

II. Performance Audits. Performance audits are systematic examinations that are performed with the intent of providing the basis for assessing the performance of a government organization, program, activity or function so that corrective action can be taken if appropriate.

1. Inspector General Statement on the Federal Communications Commission's Fiscal Year 2005 Major Management Challenges (Report No. 05-AUD-04-08 issued November 10, 2005)

In November 2000, the President signed the Reports Consolidation Act of 2000 which requires Inspectors General to provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. For the second year of reporting to include in FCC's fiscal year 2005 Performance and Accountability Report, the OIG identified the following management issues facing the FCC during fiscal year 2005:

- Reporting Component Investigations and Fraud
- Financial Reporting
- Financial Reporting Components
- Information Technology and Information Systems Security
- Revenue Gap
- Physical Security and Protection of Personnel

On November 15, 2005, the Managing Director of FCC provided responses to the challenges that were identified and stated that he intends to develop a plan to address these issues during fiscal year 2006.

Audits

1. Report of Defense Contract Audit Agency (DCAA) on Audit of FY 2003 Incurred Costs of the Titan Corporation, Civil Government Services Group (Audit Report No. 6341-2003V10100023 issued on October 11, 2005)

The primary objective of an incurred cost audit is to examine a contractor's cost representations and express an opinion as to whether these representations are reasonable; are properly incurred under the contract; and not prohibited by the contract, statute or regulation, or by decision of, or agreement with, the contracting officer. Incurred cost audits are performed at the request of the Commission's Contracts and Purchasing Center.

DCAA reviewed the final indirect cost proposal submitted by the Titan Corporation to establish indirect costs rates for FY 2003 incurred costs claimed under FCC contract nos. CON01000008 and CON01000009. These rates apply primarily to flexibly-priced contracts. DCAA's audit disclosed no material findings that would directly affect these contracts. We concluded that Titan's indirect rates for January 1, 2003 through December 31, 2003 could properly be used for contract and/or task order closeouts.

2. Audit of the National Academy of Public Administration Final Cost Claim Under FCC Contract No. CON05000001 (Audit Report No. 06-AUD-03-02 issued on January 3, 2006)

The OIG audited the National Public Academy of Public Administration's (NAPA) final costs that were claimed under FCC Contract No. CON05000001 to determine whether NAPA's claimed direct labor, subcontract, other direct and indirect cost and rate documentation supporting its final invoice under the contract was justified. We concluded that NAPA had adequately supported all costs and rates and recommended that the FCC accept the final invoice as submitted.

III. Program Audits. Program audits assess whether the objectives of both new and continuing programs are appropriate in comparison to established criteria, such as Office of Management and Budget directives or common business practices. In addition, program audits seek to determine whether each program is in compliance with laws and regulations that are applicable to that program. This type of audit also seeks to determine whether management's reports of measures of program effectiveness are valid and reliable.

1. Audit of the Federal Communication Commission's Contracts and Purchasing Center (Report No. 04-AUD-10-20 issued on November 4, 2005).

The OIG conducted this audit to provide the Commission with an independent and comprehensive evaluation and assessment of the Commission's contracting and purchasing activities. The objectives of the audit included determining whether:

- The Commission solicited, awarded, and administered contracts in accordance with Federal and Commission requirements.
- The Commission's expenditures were reasonable and necessary.
- The Commission's purchases were pursuant to contract when warranted.
- The Commission funded, let and administered contracts in an economic and efficient manner.

The Commission performed, or has the expertise to perform, appropriate oversight of contractor

Audits

performance.

Other audit objectives included:

- The identification of opportunities that could improve management control in the Contract & Purchasing Center.
- Documenting key processes and identifying opportunities to improve efficiency or effectiveness.
- An examination of the Commission's Procurement Desktop software to identify areas of potential weakness and recommend areas for improvement.

This audit determined that the Commission is generally compliant with its procurement policies and procedures and Federal Acquisition Regulations (FAR). Twenty-one (21) findings in the areas of procurement and contracting activities, and general, application and security controls for the Procurement Desktop and UNIX systems were identified where improvements could be made.

OMD concurred in eighteen (18) findings, partially concurred with three (3) findings, and outlined planned corrective actions to address those findings.

2. Audit of the Federal Communication Commission's Payroll Management and Financial Controls (Report No. 04-AUD-10-22 issued on December 5, 2005)

The OIG conducted this audit to review the payroll process at the FCC. The primary objective of this audit was to determine whether compliance with applicable laws and regulations was being achieved. Additional audit objectives included:

- Documenting our understanding of all phases of the payroll process and key internal controls over payroll and related areas;
- Testing key controls in operation and insuring that transactions recorded in the payroll system are supported by appropriate documents and that costs are charged to the right program;
- Determining whether clear, and distinct, separation of duties are in place throughout all phases of the payroll process;
- Performing tests of accuracy and compliance on leave and earnings data;
- Assessing the risk of errors or other problems in recording, reviewing and reconciling payroll transactions; and
- Performing other testing as necessary.

We concluded that, overall, the FCC is not in substantial compliance with established policies and procedures, and lacks effective monitoring activities that would insure compliance with applicable laws and regulations. We made several positive observations concerning the personnel and payroll processes, and also identified several situations where there was a lack of compliance with FCC policies and procedures. These were compiled into fourteen (14) reportable conditions. We also made recommendations to the Commission's management for improvement for each condition.

OMD concurred in twelve findings and partially agreed with two (2) of the findings. The FCC's management proposed actions to address our findings that should be sufficient to address those findings.

Audits

3. FY 2004 Network Infrastructure Controls (Report No. 04-AUD-12-23 issued on December 2, 2005)

The objective of this audit was to examine the Information Technology (IT) environment supporting the FCC's network infrastructure to ensure that the systems are adequately secured in a manner consistent with Federal regulations governing the management of critical information systems. The OIG reviewed major categories of general controls associated with the network security such as access controls, service continuity and security program planning and management. The scope of the audit included the network infrastructure managed by the Office of Managing Director's Information Technology Center (ITC) and the Auctions and Industry Analysis Division of the Wireless Telecommunications Bureau.

We identified several positive security controls during the course of our audit, including a comprehensive set of configuration controls that were in place as well as good physical security of network infrastructure controls. Our audit also disclosed twelve (12) findings pertaining to certain system vulnerabilities.

The FCC's management concurred in the results of our audit and implemented appropriate corrective actions prior to the completion of this audit.

4. Audit of the Commission's Continuity of Operations Program (COOP) (Report No. 45-AUD-09-17, dated December 6, 2005)

In the post 9-11 environment, contingency planning and business continuity became critical. In 2002, the FCC began to develop continuity of operations ("COOP") plans. The objectives of this audit were: (i) to assess the progress of FCC's contingency planning; (ii) to assess its continuity of operations program; and (iii) to determine if the FCC has a sustainable program that will achieve the desired result.

The OIG identified several positive security controls during the course of our audit, including a successful test of the COOP conducted by the FCC and a backup site for the agency's High Frequency Directional Finder Center. Our audit, however, disclosed five (5) findings pertaining to weaknesses in the FCC's implementation of its COOP.

The FCC's management concurred in the results of our audit and implemented appropriate corrective actions prior to the completion of the audit for two (2) findings and outlined corrective actions for the balance of findings.

IV. Work-in-process reports on the following audits that were not completed as of the date of publication of this report.

In the IG's previous Semiannual Report (for the six month period ending September 30, 2005) the IG reported that fourteen (14) audits and one survey were in progress as well as on-going contracting services and numerous E-rate audits. Of the fifteen (15) open audits, six (6) have been completed. The following audits and surveys are in process:

1. Audit of the Federal Communications Commission's Fiscal Year 2006 Financial Statements

Audits

This audit, required by the Accountability for Tax Dollars Act of 2002, is important both internally to the Commission's operations and necessary in support of the audit of the *Financial Report of the United States*. Additionally, the Department of the Treasury has established a "Closing Package" process requiring each agency IG to issue an opinion that the process used for submitting financial data into GFRS (the Government Financial Reporting System) has been reclassified correctly from the audited financial statements.

The objective of this audit is to provide an opinion on the FCC's FY 2006 consolidated financial statements. With the assistance of an independent public accounting firm, the OIG audits the compiled annual financial statements in accordance with established Federal guidance. Follow-up procedures will address any material weaknesses or reportable conditions from the FY 2005 audit that have not been satisfactorily resolved. We anticipate issuing an audit report by November 15, 2006, to meet the accelerated reporting time frames and issuance of an opinion on the closing package by November 17, 2006, as required by the U.S. Department of the Treasury.

2. Audit of Loan Portfolio and Related Activity

The Commission has a loan portfolio that is comprised of approximately 2,000 debtor installment payment plans. In recent years, the portfolio received increased scrutiny due to its materiality with respect to the FCC's financial statements. To mitigate concerns regarding past contractor operations and to prepare auditable balances, the Commission contracted with a public accounting firm to review and recalculate loan balances since the inception of the loan program. Although these actions resulted in significant changes to internal controls, loan balances, and source documentation, several recent changes have also affected the internal controls that are associated with the FCC's loan activity. In FY 2000, FCC contracted with a loan service provider to manage and maintain its loan portfolio. In addition, FCC developed and partially implemented the Revenue Accounting and Management Information System (RAMIS), which was originally represented to OIG as becoming the system of record for the FCC's loan activity in the future. During FY 2000, the FCC's Financial Operations Office was reorganized and responsibilities were reassigned that affected the maintenance of the loan portfolio.

The primary objective of this audit is to assess the transition of the portfolio from the FCC to a loan service provider environment. This audit has been delayed by the FCC's inability to complete the transition of its loan activities to Colson Services, a process that was only recently completed. We anticipate that this audit can now be completed during FY 2006.

3. FY 2005 FISMA Evaluation

The Federal Information System Management Act (FISMA) focuses on the programmatic management, implementation, and evaluation of agency security systems. FISMA replaced the Government Information Security Reform Act (GISRA) which expired in November 2002. A key provision of FISMA requires that each Inspector General perform an independent evaluation of his or her agency's information security programs on an annual basis.

The objective of this independent evaluation is to examine the Commission's security program and practices with respect to major information system applications. To accomplish this objective, we will test the effectiveness of security controls for an appropriate subset of the Commission's systems. In addition, we will use the FISMA assessment tool to evaluate the effectiveness of the Commission's information security program as well as to assess the risk

Audits

for each component of the program. The information report requirement by the Office of Management and Budget (OMB) was issued August 31, 2005 and our draft report was issued to the FCC's management for comment on December 21, 2005. We anticipate that a final audit report will be issued during the third quarter of FY 2006.

4. Audits of the Physical Security of Commission Facilities

In the post 9-11 environment, physical security to protect FCC employees, contractors, visitors, and assets is essential. The OIG has previously performed a number of audits on physical security. The objectives of this audit are to determine the progress this agency has made in correcting prior audit findings as well as to evaluate the FCC's physical security program. The focus of this review will be directed to the Commission's headquarters facilities at Portals I and II in Washington, DC. This audit will provide the Chairman with an independent assessment of the current posture of the FCC's physical security program at its headquarters facilities. Specific recommendations, if warranted, will be prepared to address any deficiencies identified during the audit fieldwork. An entrance conference on this audit on held on September 20, 2005.

In addition, we initiated an audit of the physical security of Commission's mailroom facilities. We anticipate issuing reports on these audits during the fourth quarter of FY 2006.

5. Integrated Spectrum Auctions System Review

The Integrated Spectrum Auctions System (ISAS) is expected by the Commission's management to replace the FCC's Automated Auctions System (AAS). Automation of the Commission's spectrum auctions holds the prospect of providing efficiency gains to the Commission and to the public. The objectives of this review are: (1) to monitor and assess ISAS compliance with the Commission's systems development life cycle (SDLC) policy; (2) to determine whether effective security controls have been built into ISAS; (3) to measure compliance with Federal capital investment regulations; (4) to ascertain whether the ISAS project has experienced any significant cost overruns, unanticipated expenditures, or project delays.

We completed an audit of the ISAS software development methodology in FY 2005 and issued our audit report on May 27, 2005. We are currently conducting Phase 2 of this audit, during which we will perform a further review of the ISAS investment and assess alternatives to the instantiation of this system. We anticipate issuing an audit report during the second quarter of FY 2006.

6. Audit of Regulatory Fee Collections

Collection of fees is a critical financial function of the FCC. In recent years, the Commission has collected more than \$200,000,000 in fees annually. Because of the criticality of the fee collection function, and the significant financial investment in the systems to automate this function, the IG determined that audit work was warranted. This audit will examine the regulatory fee collection process to determine if the Commission can be reasonably assured that all applicable regulatory fees are being collected. The OIG will review both manual and automated controls over the regulatory fee collection process. We will also review a statistical sample of regulated entities to determine if the Commission has been collecting all fees due. Audit planning has been initiated for this activity.

Audits

7. Commission Registration System (CORES) Application Audit

The Commission Registration System (CORES) system was developed so its users could more easily file applications, reports, and other documents. CORES allows licensing and cable operation information to be more accessible to both FCC staff and to the public. The objective of this survey is to determine the extent and effectiveness of security controls in the CORES application. We will evaluate the efficacy of security controls in CORES, including access controls, separation of duties, penetration testing, application audit trails, and application change controls. Audit planning has been initiated for this audit and we anticipate issuing a report during the fourth quarter of FY 2006.

8. Continuity of Operations (COOP) Audits for Related Entities

In the post 9-11 environment, contingency planning and operations continuity are essential. In 2002, the FCC began to develop operations continuity plans. The objective of these audits is to determine the progress that has been made with respect to the contingency planning programs and the operations continuity programs for FCC related entities to determine if they have realistic, effective, and reliable programs. These audits will provide the Chairman with an independent assessment of the current posture of the operations continuity programs of all entities that are included as part of the FCC's financial statements. We issued a draft audit report on the COOP for the Universal Service Administrative Company (USAC) on November 9, 2005. We anticipate issuing a final report on this audit during the third quarter of FY 2006.

9. Telecommunications Relay Services Fund (TRS) Provider Analysis & Risk Assessment

The TRS program became effective on July 26, 1993 as an interstate cost recovery plan that required common carriers to provide telephone voice transmission services through out the areas in which they offer services. Approximately \$70 millions are contributed annually to a dozen providers by 2,800 common carriers which are paid by telephone customers through their monthly telephone bills. This program has not been subjected to a comprehensive program of audit and oversight by this office. Additionally, the Commission has not calculated the estimated percentage of erroneous payments for the TRS program.

This is the first in an anticipated series of projects that will culminate in a defined audit process for providing the Commission and the IG with an independent and comprehensive examination and assessment of the Federal Communication Commission's TRS program's administration and TRS provider compliance with 47 CFR §§ 64.601 - 64.605 and the conduct of such audits. Objectives include analyzing the FCC TRS oversight requirements, assessing the Commission's program management functions, and evaluating the operations of the TRS administrator. We anticipate issuing our report on the initial phase of this project during the fourth quarter of FY 2006.

Audits

11. Audits of E-rate Beneficiaries

As discussed in the report section Independent Oversight of the Universal Service Fund (USF), we have a number of audits of E-rate beneficiaries in process. The following table lists the audits and their status.

<u>Auditee</u>	<u>Location</u>	<u>Auditor</u>	<u>Status</u>
Bureau of Indian Affairs (BIA)	Washington, DC	DOI OIG	In process
VI Department of Education	St. Thomas, VI	DOI OIG	In process
Brevard County School District	Viera, FL	FCC OIG Education	Draft report
New York City Department of Education	New York, NY	OIG	In process
Denver Public Schools	Denver, CO	KPMG LLP	Draft report
Harlandale Independent School District	San Antonio, TX	KPMG LLP	Draft report
Providence Public Schools	Providence, RI	KPMG LLP	Draft report
Sunnyside Unified School District 12	Tucson, AZ	KPMG LLP	Draft report
Cincinnati City School District	Cincinnati, OH	KPMG LLP	Draft report
Rhode Island Department of Elementary and Secondary Education	Providence, RI	KPMG LLP	Draft report
Rio Grande City Consolidated ISD	Rio Grande City, TX	KPMG LLP	In process
Advanced Education Services	Colton, CA	KPMG LLP	In process
Long Beach Unified School District	Long Beach, CA	KPMG LLP	Draft report
North East Independent School District	San Antonio, TX	KPMG LLP	Draft report
Delano Joint Union High School District	Delano, CA	KPMG LLP	In process
Grant Joint Union High School District	Sacramento, CA	KPMG LLP	In process
San Diego County Office of Education	San Diego, CA	KPMG LLP	In process
Baltimore City Public School District	Baltimore, MD	KPMG LLP	Draft report
Fairfax County Public Schools	Fairfax, VA	KPMG LLP	Draft report
Long Branch School District	Long Branch, NJ	KPMG LLP	Draft report
Municipal Telephone Exchange	Baltimore, MD	KPMG LLP	In process
Alabama Super Computer Authority	Montgomery, AL	KPMG LLP	In process
Charleston County School District	Charleston, SC	KPMG LLP	In process
Clark County School District	Las Vegas, NV	KPMG LLP	Draft report
Dallas Independent School District	Dallas, TX	KPMG LLP	Draft report
Department of Information Systems State of Arkansas	Little Rock, AR	KPMG LLP	In process
Dorchester County School District #4	Saint George, SC	KPMG LLP	Draft report
El Monte City Elementary School District	El Monte, CA	KPMG LLP	Draft report
Fontana Unified School District	Fontana, CA	KPMG LLP	In process
Gallup-McKinley County School District	Gallup, NM	KPMG LLP	Draft report

Audits

<u>Auditee</u>	<u>Location</u>	<u>Auditor</u>	<u>Status</u>
San Felipe – Del Rio City ISD	Del Rio, TX	KPMG LLP	Draft report
Stockton City Unified School District	Stockton, CA	KPMG LLP	Draft report
Buchanan County School District	Grundy, VA	KPMG LLP	Draft report
Brownsville Independent School District	Brownsville, TX	KPMG LLP	In process
Aldine Independent School District	Houston, TX	KPMG LLP	Draft report
Edinburg Independent School District	Edinburg, TX	KPMG LLP	In process
Houston Independent School District	Houston, TX	KPMG LLP	Draft report
Iowa Department of Education	Des Moines, IA	KPMG LLP	Draft report
South Carolina Division of the State Chief Information Officer	Columbia, SC	KPMG LLP	In process
Pharr – San Juan – Alamo Independent School District	San Juan, TX	KPMG LLP	In process
Pomona Unified School District	Pomona, CA	KPMG LLP	Draft report
Florida Information Resource Network	Tallahassee, FL	KPMG LLP	In process
Texas Youth Commission	Austin, TX	KPMG LLP	Draft report
Berkeley County School District	Moncks Corner, SC	KPMG LLP	Draft report
Eastern Nebraska Distance Learning Consortium	Fremont, NE	KPMG LLP	Draft report
Dougherty County School District	Albany, GA	KPMG LLP	Draft report
Montgomery County School District	Montgomery, AL	KPMG LLP	In process
Orleans Parish School District	New Orleans, LA	KPMG LLP	In process
Kayenta Unified School District 27	Kayenta, AZ	KPMG LLP	In process
Weslaco Independent School District	Weslaco, TX	KPMG LLP	Draft report
LaJoya Independent School District	LaJoya, TX	KPMG LLP	Draft report
Pasadena Independent School District	Pasadena, TX	KPMG LLP	In process
Premont Independent School District	Premont, TX	KPMG LLP	In process
Navajo Nation Library Consortium	Window Rock, AZ	KPMG LLP	Draft report
Wilson School District 7	Phoenix, AZ	KPMG LLP	Draft report
Los Angeles Unified School District	Los Angeles, CA	KPMG LLP	In process
Prince Georges County Schools	Upper Marlboro, MD	FCCOIG/USAC	In process
Miami-Dade County Public Schools	Miami, FL	KPMG LLP	In process
American Samoa SEA	Pago Pago, AS	KPMG LLP	Draft report
Guam Department of Education	Hagatna, GU	KPMG LLP	In process
Birmingham City School District	Birmingham, AL	KPMG LLP	In process
Georgia State Department of Education	Atlanta, GA	KPMG LLP	In process
Orange County School District	Orlando, FL	KPMG LLP	In process
Jackson Public School District	Jackson, MS	KPMG LLP	In process
Richland County School District	Columbia, SC	KPMG LLP	Draft report
Bassett Unified School District	La Puente, CA	KPMG LLP	Draft report
Leake & Watts Services, Inc. Corporation for Network Education Initiative in California	Yonkers, NY	KPMG LLP	In process
Desert Sands Unified School District	Cypress, CA	KPMG LLP	In process
Garvey Elementary School District	La Quinta, CA	KPMG LLP	Draft report
	Rosemead, CA	KPMG LLP	In process

Audits

<u>Auditee</u>	<u>Location</u>	<u>Auditor</u>	<u>Status</u>
Nw-Links	Moorhead, MN	KPMG LLP	In process
Robstown Independent School District	Robstown, TX	KPMG LLP	In process
San Bernardino City Unified School District	San Bernardino, CA	KPMG LLP	In process
School Board of Broward County, Florida	Sunrise, FL	KPMG LLP	Draft report
South San Antonio Independent School District	San Antonio, TX	KPMG LLP	In process
Trenton City School District	Trenton, NJ	KPMG LLP	In process
Boston Public Library/MBLN	Boston, MA	KPMG LLP	In process
Boston School District	Boston, MA	KPMG LLP	In process
Bridgeport School District	Bridgeport, CT	KPMG LLP	In process
Brooklyn Public Library	Brooklyn, NY	KPMG LLP	In process
Buffalo City School District	Buffalo, NY	KPMG LLP	In process
Palm Beach County School District	West Palm Beach, FL	KPMG LLP	In process
City of Boston, Department of Neighborhood Development	Boston, MA	KPMG LLP	In process
Saginaw Public School District	Saginaw, MI	KPMG LLP	In process
School City of East Chicago	East Chicago, IN	KPMG LLP	Draft report
Central Islip Union Free School District	Central Islip, NY	KPMG LLP	In process
Fresno Unified School District	Fresno, CA	KPMG LLP	In process
Norwalk La Mirada Unified School District	Norwalk, CA	KPMG LLP	In process
Paramount Unified School District	Apple Valley, CA	KPMG LLP	In process
Columbus Public Schools	Columbus, OH	KPMG LLP	In process
Gadsden Independent School District	Sunland, NM	KPMG LLP	In process
Laredo Independent School District	Laredo, TX	KPMG LLP	In process
Milwaukee Public Schools	Milwaukee, WI	KPMG LLP	In process
Newark School District	Newark, NJ	KPMG LLP	In process
Saint Louis City School District	Saint Louis, MO	KPMG LLP	In process
Saint Paul Public School District	Saint Paul, MN	KPMG LLP	In process
TEACH Wisconsin	Madison, WI	KPMG LLP	In process
Tucumcari Public School District	Tucumcari, NM	KPMG LLP	In process
United Independent School District	Laredo, TX	KPMG LLP	In process
Yonkers Public School District	Yonkers, NY	KPMG LLP	In process
Camden City Public School	Camden, NJ	KPMG LLP	In process
Detroit Public School District	Detroit, MI	KPMG LLP	In process
Illinois State Board of Education	Springfield, IL	KPMG LLP	In process
Kansas City School District	Kansas City, MO	KPMG LLP	In process

12. Audit Support for USF Investigations

In addition to the audit component of our independent oversight program, we are providing audit support to investigations of E-rate recipients and service providers. To implement the investigative component of our plan, we established a working relationship with the Antitrust

Division of the Department of Justice (DOJ). The Antitrust Division has established a task force to conduct USF investigations comprised of attorneys in each of the Antitrust Division's seven field offices and the National Criminal Office. As of the end of the reporting period, we are supporting twenty-four (24) investigations and monitoring an additional eleven (11) investigations.

Management

Specialized Training and Activities

In our continuing effort to expand the expertise of our audit staff, we have attended training at the Inspector General Criminal Investigative Academy, other federal OIG training events, master's level classes at colleges and universities and other technical seminars.

Report Availability

This OIG Semiannual Report, as well as other types of reports, can be obtained through the Internet from the OIG web page, which is located on the FCC's website at <http://www.fcc.gov/oig>. OIG reports that containing sensitive or proprietary information that are protected from disclosure by law will be restricted in accordance with that legislation.

Internships

The OIG welcomes college interns during the fall, spring and summer. Most of these students take their internships for credit. Recent interns have come from schools across the country, including Hamilton College, the University of California at Berkeley, the University of California at Davis, American University, Georgetown University, DePauw University, the University of North Carolina, North Carolina State University, Xavier University, and James Madison University.

These internships have proved to be rewarding experiences to all participants. Students leave with a good understanding of how a government agency operates, and they have the opportunity to encounter the challenges involved in governance while enjoying the exhilaration that can come from public service.. In turn, the office has benefited from the students' excellent work performance that, in part, has reflected their youth, exuberance, and special skills.

Investigations

OVERVIEW

Investigative matters pursued by this office are usually initiated as a result of allegations received through the OIG hotline or from FCC managers and employees who contact the OIG directly. Investigations may also be predicated upon audit or inspection findings of fraud, waste, abuse, corruption, or mismanagement by FCC employees, contractors, and/or subcontractors or through referrals from other governmental agencies. Upon receiving an allegation of an administrative or criminal violation, the OIG usually conducts a preliminary inquiry to determine if an investigation is warranted. Investigations may involve possible violations of regulations regarding employee responsibilities and conduct, federal criminal law, and other regulations and statutes pertaining to the activities of the Commission. Investigative findings may lead to criminal or civil prosecution, or administrative action, or all of the foregoing.

The OIG also receives complaints from the general public, both private citizens and commercial enterprises, about the manner in which the FCC executes its programs and oversight responsibilities. All complaints are examined to determine whether there is any basis for OIG audit or investigative action. If nothing is alleged that is within the jurisdiction of the OIG, the complaint is usually referred to the appropriate FCC bureau or office for response directly to the complainant. The OIG continues to serve as a facilitator with respect to responses to complaints that are outside the jurisdiction of this office. Finally, matters may be referred to this office for investigative action from other governmental entities, such as the General Accounting Office, the Office of Special Counsel or congressional offices.

ACTIVITY DURING THIS PERIOD

Forty-eight (48) cases were pending from the prior period. Thirty-six (36) of those cases involve the Commission's Universal Service Fund (USF) program and have been referred to the Federal Bureau of investigation (FBI) and/or the Department of Justice. An additional two (2) non-USF and two (2) USF related complaints were received during the current reporting period. Over the last six months, four (4) cases, three (3) USF and one (1) non-USF related have been closed. A total of forty-eight (48) cases are still pending, of which thirty-five (35) relate to the USF program. The OIG continues to monitor, coordinate and/or support activities regarding those 35 investigations. The investigations pertaining to the pending thirteen (13) non-USF cases are ongoing.

STATISTICS

Cases pending as of March 31, 2005	48
New cases.....	4
Cases closed.....	4
Cases pending as of September 30, 2005.....	48

Investigations

SIGNIFICANT INVESTIGATIVE CASE SUMMARIES

- The OIG initiated an inquiry into allegations of improper conduct by a Commission employee with respect to the possession of private information relating to a group of Commission employees. Specifically, it was alleged that the FCC employee had violated the Privacy Act of 1974 U.S.C.A. §552a, et. seq. Inquiries in relation to this issue are currently pending.
- During this period, the OIG initiated an inquiry into allegations of procurement fraud involving by an FCC employee. . Specifically, it was alleged that the employee directed contracts and purchases to related parties. The OIG's inquiry resulted in a fraud referral to the Federal Bureau of Investigation. We continue to monitor this referral.

The OIG continues to coordinate and provide assistance to law enforcement entities with respect to investigations pertaining to infractions within the Universal Service Fund program of the Commission.

Legislation

OVERVIEW

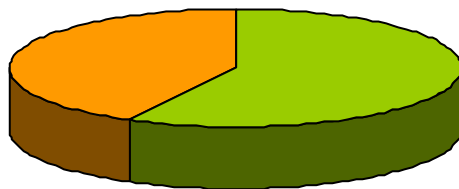
Pursuant to section 4(a)(2) of the Inspector General Act of 1978 (IG Act), 5 U.S.C.A. App. 3 as amended, our office monitors and reviews existing and proposed legislative and regulatory items for their impact on the Office of the Inspector General and the Federal Communications Commission programs and operations. Specifically, we perform this activity to evaluate their potential for encouraging economy and efficiency and preventing fraud, waste, and mismanagement.

The office continued to monitor legislative activities affecting the activities of the OIG and the FCC. During this period, this office specifically monitored legislation and legislatively related proposals which, directly or indirectly, affect the ability of Designated Federal Entity IGs to function independently and objectively.

OIG Hotline

During this reporting period, the OIG Hotline technician received numerous hotline calls to the published hotline numbers of (202) 418-0473 and 1-888-863-2244 (toll free). The OIG Hotline continues to be a vehicle by which Commission employees and parties external to the FCC can contact the OIG to speak with a trained Hotline technician. Callers who have general questions or concerns not specifically related to the missions or functions of the OIG office are referred to the FCC Consumer Center at 1-888-225-5322. In addition, the OIG also refers calls that do not fall within its jurisdiction to other entities, such as other FCC offices, federal agencies and local or state governments. Examples of calls referred to the Consumer Center or other FCC offices include complaints pertaining to customers' phone service and local cable providers, long-distance carrier slamming, interference, or similar matters within the program responsibility of other FCC bureaus and offices. During the reporting period, we received eighty-five (85) hotline calls. The majority of these were forwarded to the Consumer Center (49 calls) and the balance of calls were referred to other federal agencies, primarily the Federal Trade Commission (35 calls).

Hotline Calls Record October 1, 2005 - MArch 31, 2006



■ FCC Consumer Hotline

■ Other Federal Agencies

OIG Hotline

Report Fraud, Waste or Abuse to:

Office of the Inspector General
Federal Communications Commission

CALL

Hotline: (202) 418-0473

or

(888) 863-2244

www.fcc.gov/oig



You are always welcome to write or visit.

Federal Communications Commission
Portals II Building
445 12th St., S.W. –Room #2-C762



Specific Reporting Requirements of the Inspector General Act

The following summarizes the Office of Inspector General response to the 12 specific reporting requirements set forth in Section 5(a) of the Inspector General Act of 1978, as amended.

1. A description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of such establishment disclosed by such activities during the reporting period.

Please refer to the Section of this report entitled "Universal Service Fund" on pages 3 through 6.

2. A description of the recommendations for corrective action made by the Office during the reporting period with respect to significant problems, abuses, or deficiencies identified pursuant to paragraph (1).

Please refer to the section of this report entitled "Universal Service Fund" on pages 3 through 6.

3. An identification of each significant recommendation described in previous semiannual reports on which corrective action has not yet been completed.

No significant recommendations remain outstanding.

4. A summary of matters referred to authorities, and the prosecutions and convictions which have resulted.

Please refer to the section of this report entitled "Universal Service Fund" on pages 3 through 6. No non-USF cases have been referred to the Department of Justice during this reporting period.

5. A summary of each report made to the head of the establishment under section (6)(b)(2) during the reporting period.

No report was made to the Chairman of the FCC under section (6)(b)(2) during this reporting period.

6. A listing, subdivided according to subject matter, of each audit report issued by the office during the reporting period, and for each audit report, where applicable, the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and the dollar value of recommendations that funds be put to better use.

Each audit report issued during the reporting period is listed according to subject matter and described in parts II and III of this report.

7. A summary of each particularly significant report.

Each significant audit and investigative report issued during the reporting period is summarized within the body of this report.

Specific Reporting Requirements of the Inspector General Act

8. Statistical tables showing the total number of audit reports with questioned costs and the total dollar value of questioned costs.

The required statistical table can be found at Table I to this report.

9. Statistical tables showing the total number of audit reports with recommendations that funds be put to better use and the total dollar value of such recommendations.

The required statistical table can be found at Table II to this report.

10. A summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of the reasons why such a management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report.

Three reports were issued before the commencement of this reporting period for which no management decision has been made. These reports are for audits of E-rate beneficiaries. Management has not informed us as to the status of a management decision for the E-rate audits.

<u>Report Date</u>	<u>Audit Report Title</u>	<u>Questioned Costs</u>
August 18, 2005	Report on Audit of the E-rate program at St. Joseph's High School, St. Croix, VI	\$136,849
August 18, 2005	Report on Audit of the E-rate program at St. Mary's Catholic School, St. Croix, VI	\$120,051
August 18, 2005	Report on Audit of the E-rate program at St. Patrick Catholic School, St. Croix, VI	\$137,571

11. A description and explanation of the reasons for any significant revised management decision made during the reporting period.

No management decisions fall within this category.

12. Information concerning any significant management decision with which the Inspector General is in disagreement.

No management decisions fall within this category.

13. Information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.

No reports with this information have been issued during this reporting period.

OIG Reports With Questioned Costs

Table I. Inspector General Reports With Questioned Costs	Number of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	3	\$394,471	—
B. Which were issued during the reporting period.	—	—	—
C. For which a management decision was made during the reporting period.	—	—	—
(i) Dollar value of disallowed costs	—	—	—
(ii) Dollar value of costs not disallowed	—	—	—
D. For which no management decision has been made by the end of the reporting period.	3	\$ 394,471	—
Reports for which no management decision was made within six months of issuance.	3	\$394,471	—

**OIG Reports With Recommendations That Funds
Be Put To Better Use**

Table II. Inspector General Reports With Recommendations That Funds Be Put To Better Use	Number of Reports	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	-	-
B. Which were issued during the reporting period.	-	-
C. For which a management decision was made during the reporting period.	-	-
(i) Dollar value of disallowed costs	-	-
(ii) Dollar value of costs not disallowed	-	-
D. For which no management decision has been made by the end of the reporting period.	-	-
Reports for which no management decision was made within six months of issuance.	-	-