Federal Communications

Commission

Office of the Inspector General
Semiannual Report to Congress
April 1, 2004 - September 30, 2004

H. Walker Feaster III
Inspector General

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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 by the Telecommunications Act of 1996. 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 the U.S. possessions. Under the Communications Act, the FCC is mandated to make rapid, efficient, nationwide and worldwide wire and radio communication service available to all people in its jurisdiction. The FCC performs four major functions to fulfill this charge:

- Spectrum allocation
- Creating rules to promote fair competition and protect consumers where required by market conditions
- Authorization of service
- Enforcement

The Chairman and four Commissioners are appointed by the President and confirmed by the Senate.

Michael K. Powell was designated Chairman on January 22, 2001. Kathleen Q. Abernathy, Jonathan S. Adelstein, Michael J. Copps and Kevin J. Martin serve as Commissioners. The majority of FCC employees are located in Washington, D.C. FCC field offices and resident agents are located throughout the United States. FCC headquarters staff are located in the Portals II building located at 445 12th St., S.W., Washington, D.C. 20554.

The Office of Inspector General (OIG) dedicates itself to assisting the Commission as it continues to improve its effectiveness and efficiency. The Inspector General (IG), H. Walker Feaster III, reports directly to the Chairman. The OIG staff consists of eleven professionals and a student intern. Principal assistants to the IG are: Thomas Cline, Assistant Inspector General (AIG) for Audits; Thomas Bennett, AIG for Universal Service Fund Oversight; Charles J. Willoughby, AIG for Investigations; and Thomas M. Holleran, AIG for Policy and Planning.

Introduction

Mr. Willoughby also serves as counsel.

This semiannual report includes the major accomplishments and general activities of the OIG during the period of April 1, 2004 through September 30, 2004.

Universal Service Fund

Independent Oversight of the Universal Service Fund (USF)

Beginning with our semiannual report for the period ending March 31, 2002, we have included a section highlighting our efforts to implement effective, independent oversight of the Universal Service Fund (USF)[1]. We decided that it was necessary to highlight our efforts to provide independent oversight of the USF to ensure that Congress and other recipients of our semiannual report clearly understood our concerns about this program. We have also used this section of the report to identify obstacles to the effective implementation of our oversight program. Due to materiality and our assessment of audit risk, we have focused much of our attention on the USF mechanism for funding telecommunications and information services for schools and libraries, also known as the "Schools and Libraries Program" or the "E-rate" program.

I am pleased to report that concerns that we have raised about the E-rate program have received considerable attention during the reporting period. Most notably, on August 4, 2004, the Commission adopted the Fifth Report and Order on the Schools and Libraries Universal Support Mechanism. In the Fifth Report and Order, the Commission resolved a number of issues arising from audits of the E-rate program and programmatic concerns raised by my office. In the introduction to the Fifth Report and Order, the Commission included the following statement regarding actions taken in the order:

> First, we set forth a framework regarding what amounts should be recovered by the Universal Service Administrative Company (USAC or Administrator) and the Commission when funds have been disbursed in violation of specific statutory provisions and Commission rules. Second, we announce our policy regarding the timeframe in which USAC and the Commission will conduct audits or other investigations relating to use of E-rate funds.

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[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).

Third, we eliminate the current option to offset amounts disbursed in violation of the statute or a rule against other funding commitments. Fourth, we extend our red light rule previously adopted pursuant to the Debt Collection Improvement Act (DCIA) to bar beneficiaries or service providers from receiving additional benefits under the schools and libraries program if they have failed to satisfy any outstanding obligation to repay monies into the fund. Fifth, we adopt a strengthened document retention requirement to enhance our ability to conduct all necessary oversight and provide a stronger enforcement tool for detecting statutory and rule violations. Sixth, we modify our current requirements regarding the timing, content and approval of technology benefits. Seventh, we amend our beneficiary certification requirements to enhance our oversight and enforcement activities. Eighth, we direct USAC to submit a plan for timely audit resolution, and we delegate authority to the Chief of the Wireless Competition Bureau to resolve audit findings. Finally, we direct USAC to submit on an annual basis a list of all USAC administrative procedures to the Wireline Competition Bureau (Bureau) for review and further action, if necessary, to ensure that such procedures effectively serve our objective of preventing waste, fraud and abuse.

Congressional Hearings

The Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce conducted three hearings during the reporting period related to waste, fraud and abuse in the E-rate program. The FCC Inspector General testified before the Subcommittee in two of these hearings and the OIG assisted congressional staff in preparation for the third hearing.

Subcommittee on Oversight and Investigations – June 17, 2004

On June 17, 2004, the Subcommittee on Oversight and Investigations held their first hearing on E-rate fraud, waste and abuse. The focus of this hearing was to discuss fraud, waste and abuse in the context of Puerto Rico Department of Education (PRDOE) participation in the program. The Inspector General testified in the first panel with the Honorable Manuel Díaz Saldana, Comptroller - Commonwealth of Puerto Rico. A second panel included representatives from PRDOE and their E-rate service providers and a third panel included representatives from the FCC and Universal Service Administrative Company (USAC).

In his testimony, the Inspector General provided a brief summary of OIG involvement in USF oversight, discussed specific actions with respect to PRDOE's involvement in the E-rate program, and discussed, in general terms, concerns that the OIG has with the E-rate program. The Inspector General discussed the following general concerns highlighted by PRDOE's involvement in the program:

- Resolution of Audit Findings and Fund Recoveries;
- Rules Governing Competitive Procurement;
- Delivery of Goods and Services; and
- Reliance on Applicant Certifications.

In addition, the Inspector General discussed the following general concerns resulting from OIG involvement in E-rate audits and investigations:

- Program Design and Beneficiary Compliance;
- Applicant Technology Planning;
- Discount Calculation; and
- Payment of the Non-Discount Portion.

Subcommittee on Oversight and Investigations – July 22, 2004

On July 22, 2004, the Subcommittee on Oversight and Investigations held their second hearing on E-rate fraud, waste and abuse. The focus of this hearing was to discuss fraud, waste and abuse related to NEC Business Network Solutions, Inc. (NEC-BNS) participation in the E-rate program. In May 2004, NEC-BNS agreed to plead guilty to bid rigging and wire fraud and agreed to pay a $20.6 million criminal fine, civil settlement and restitution. NEC-BNS was charged with allocating contracts and rigging bids for E-rate projects at five different school districts in Michigan, Wisconsin, Arkansas, and South Carolina, in violation of the Sherman Antitrust Act. NEC-BNS was also charged with wire fraud by entering into a scheme to defraud the E-rate program and the San Francisco Unified School District by inflating bids, agreeing to submit false and fraudulent documents to hide the fact that it planned on installing ineligible items, agreeing to donate "free" items that it planned to bill E-rate for, and submitting false and fraudulent documents to defeat inquiry into the legitimacy of the funding request.

The OIG did not participate in this hearing. However, as a result of our involvement in supporting the investigation that resulted in this plea agreement, the OIG provided assistance to congressional staff in preparation for this hearing.

Subcommittee on Oversight and Investigations – September 22, 2004

On September 22, 2004, the Subcommittee on Oversight and Investigations held their third hearing on E-rate fraud, waste and abuse. The focus of this hearing was to follow-up on issues discussed in the July 22, 2004 hearing about NEC-BNS. An additional objective was to review IBM's participation in the E-rate program as a service provider. The Inspector General testified in the first panel with Jeff Carlisle, Chief of the FCC Wireline Competition Bureau, and George McDonald, Vice President of the Schools and Libraries Division of USAC. A second panel included representatives from NEC-BNS and other service providers that participated with NEC-BNS as well as officials from school districts that did business with NEC-BNS. The third panel included representatives from IBM, and other service providers that worked with IBM as well as representatives from school districts that did business with IBM.

In his testimony, the Inspector General provided a brief summary of OIG's involvement in the investigations of NEC-BNS and IBM and discussed the programmatic concerns raised by these investigations. The Inspector General discussed the following concerns highlighted by these investigations:

- Rules Governing Competitive Procurement; and
- Reliance on Applicant Certifications.

OIG Audits Using Internal Resources

We completed five audits using internal resources during the reporting period. For the five audits that were completed, we concluded that applicants were compliant with program rules in one of the audits and that the applicants were not compliant with program rules in four of the audits. For the four audits where we determined that applicants were not compliant, we have recommended recovery of $1,576,350. Two of the audits—Southern Westchester Board Of Cooperative Educational Services (BOCES) and United Talmudical Academy— were randomly selected as part of our beneficiary audit program. The other three audits—Children's Store Front School, St. Augustine School, and Annunciation Elementary School—were conducted at the request of federal law enforcement.

Please refer to the audit report section of the semi-annual report for detailed information regarding E-rate audits completed during the reporting period.

Report Date	Applicant	Conclusion	Potential Fund Recovery
04/06/04	Children's Store Front School	Not Compliant	491,447
05/19/04	St. Augustine School	Not Compliant	21,600
05/25/04	Southern Westchester BOCES	Compliant	0
06/07/04	United Talmudical Academy	Not Compliant	934,300
08/12/04	Annunciation Elementary School	Not Compliant	129,003
		Total……………..	$1,576,350

Audits Conducted by Other Federal Offices of Inspector General

On January 29, 2003, we executed a Memorandum of Understanding (MOU) with the Department of the Interior (DOI) OIG. This MOU is 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. During the reporting period, we issued three draft reports and completed fieldwork on two additional audits.

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.

Review of USAC Audits

We have reviewed work performed by USAC's Internal Audit Division and performed the procedures necessary under our audit standards to rely on that work. In December 2002, USAC established a contract with a public accounting firm to perform agreed-upon procedures at a sample of seventy-nine beneficiaries from funding year 2000. The audit program for this review was created with input from the OIG and the sample of beneficiaries was selected by the OIG. In a departure from the two previous large-scale E-rate beneficiary audits conducted by USAC, the agreed-upon procedures being performed under this contract would be performed in accordance with both the Attestation Standards established by the American Institute of Certified Public Accountants (AICPA) Standards and Generally Accepted Government Auditing Standards, issued by the Comptroller General (GAS 1994 revision, as amended) (GAGAS). In March 2003, we signed a contract with a public accounting firm to provide audit support services for USF oversight to the OIG. The first task order that we established under this contract was for the performance of those procedures necessary to determine the degree to which we can rely on the results of that work (i.e., to verify that the work was performed in accordance with the AICPA and GAGAS standards). The OIG review team is currently completing this work.

Support to Investigations

In addition to the audit component of our independent oversight program, we are providing audit support to a number of 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-two investigations and monitoring an additional fifteen investigations.

Significant accomplishments in investigative support during the reporting period are as follows:

- In April 2004, we issued a report summarizing the results of audit procedures performed at the request of federal law enforcement in support of an on-going investigation. In our report, we identified monetary findings in the amount of $1,288,743 related to goods and services that were not provided and for which the service provider received payment. We also identified several apparent instances of noncompliance with program rules. Issues of noncompliance included no approved technology plan, conflict of interest in the completion of Form 470, no competitive bidding process, and schools not budgeting for, or paying, the non-discounted portion of the cost of goods and services provided.
- In April 2004, five individuals were indicted and four of them were arrested in connection with charges of conspiracy, mail fraud, and money laundering involving the E-rate program in Milwaukee, WI.
- In May 2004, NEC-Business Network Solutions Inc. (NEC-BNS), a subsidiary of NEC America Inc., entered into a plea agreement as a result of this investigation. In that agreement, NEC-BNS agreed to plead guilty to one count of wire fraud in violation of 18 U.S.C. § 1343 and one count of conspiracy to suppress and eliminate competition in violation of the Sherman Antitrust Act, 15 U.S.C. § 1. As part of the settlement, NEC-BNS agreed to pay $20,685,263 in criminal fines, civil settlement, and restitution.
- In July 2004, we issued a report summarizing the results of audit procedures performed at the request of federal law enforcement in support of an on-going investigation. In our report, we identified

monetary findings in the amount of $1,195,250 related to goods and services that were not provided, improper product substitutions, improper state sales tax charges, and failure to reimburse the applicant under a Billed Entity Applicant Reimbursement (BEAR) invoice. We also identified several apparent instances of noncompliance with program rules. Issues of noncompliance included schools not budgeting for, or paying, the non-discounted portion of the cost of goods and services provided and schools not complying with competitive bidding requirements.

Conclusion

To date, one-hundred and thirty five targeted and randomly selected audits have been completed by my office, USAC internal auditors, or USAC contract auditors in which the auditor reached a conclusion about beneficiary compliance. Of the 135 audits, auditors determined that beneficiary was not compliant in 48 audits representing 36% of these audits. Recommended fund recoveries for those audits where problems were identified total over $17 million.

As a result of our involvement in E-rate beneficiary audits and as a result of our involvement in investigations, we continue to be concerned about fraud, waste and abuse in Universal Service Fund programs. We remain committed to meeting our responsibility for providing effective independent oversight of the Universal Oversight Fund program. We believe we have made significant progress toward our goal of designing and implementing an effective, independent oversight program. However, primarily because of a lack of adequate resources, we have been unable to fully implement our oversight program. We have been working closely with the Commission to obtain access to necessary resources and the Commission has been very supportive of our efforts to obtain resources for independent oversight of the USF. As I have stated previously in my semiannual reports to the Congress, until resources and funding are available to provide adequate independent oversight for the USF program, we are unable to give the Chairman, Congress, and the public an appropriate level of assurance that the program is protected from fraud, waste and abuse.

Audits

I. Financial statement audits provide practical assurance about whether the financial statement of an audited agency presents the financial position, results of operations, and costs in the standards of generally accepted accounting principles. These audits are used to decipher whether or not financial information is presented according to established or stated criteria. These audits also reveal if the firm's internal control over financial reporting and/or safeguarding assets is designed to adequately fit the firm and if it is fully implemented to achieve the control objectives.

Audit of the Commission's FY 2004 Financial Statement

The Federal Communications Commission (FCC) is a covered agency under the Accountability of Tax Dollars Act of 2002. As a covered agency, FCC prepares financial statements in accordance with generally accepted accounting principles per the Government Management Reform Act (GMRA) of 1994, which amended the Chief Financial Officers Act (CFO Act) of 1990, to require annual preparation and audit of organization wide financial statements of the United States.

The status of this audit activity is reported under "Work-In-Progress".

Audits

II. Performance audits are systematic examinations of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity or function, in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

The OIG began contract auditing for the purposes of establishing contract audit oversight and providing accounting and financial advisory services in connection with the negotiation, administration and settlement of contracts and subcontracts to FCC procurement and contract administrators. In that capacity the Defense Contract Audit Agency (DCAA) performs audits, reviews and agreed-upon procedures reviews of contractors providing goods and services to the FCC. These projects include labor timekeeping reviews, billing system reviews, forward pricing audits, incurred cost audits, equitable adjustment proposal audits, etc. throughout the fiscal year.

In addition, OIG staff performs contract audits upon request from FCC's Contract and Purchasing Center.

1. Report of Defense Contract Audit Agency (DCAA) on Ernst & Young LLP (E&Y) FY 2004 Labor Timekeeping Review (Floor Check) (Audit Report No. 06311-2004R10310009 issued on April 19, 2004)

The purpose of this floor check was to assure that E&Y's employees are performing their assigned jobs and charging their time to appropriate tasks. The floor checks were conducted on March 10, 2004. The floor checks determined that the contractor consistently complied with the established timekeeping system policies. Our floor checks disclosed no significant deficiencies in the contractor's timekeeping or labor systems.

Audits

2. Defense Contract Audit Agency (DCAA) Report on Ernst & Young LLP (E&Y) FY 2004 Billing System Audit (Audit Report No. 06311-2004R17740003 issued on May 3, 2004)

The purpose of this audit was to determine whether the contractor's billing procedures are adequately designed for the preparation of cost reimbursement claims under FCC Contract Number CON00000002. E&Y is responsible for establishing and maintaining an adequate accounting system for accumulating and billing costs under government contracts. The audit concluded that E&Y's billing system is adequate for billing costs accumulated under FCC Contract Number CON00000002.

III. Program audits assess whether the objectives of both new and ongoing programs are proper, suitable or relevant, and also assess compliance with laws and regulations applicable to the program. This particular type of audit also serves to determine whether management has reported measures of program effectiveness that are valid and reliable.

1. Report on Audit of E-rate program at Children's Storefront School (Audit Report No. 02-AUD-02-04-025 issued on April 5, 2004)

This E-rate beneficiary audit was conducted as part of our oversight of the Universal Service Fund. Children's Storefront School (Children's) is an independent, tuition free school that is located in the Harlem section of New York City. The objective of this audit was to assess the compliance of the beneficiary with the rules and requirements of the Universal Service Fund (USF) and to identify E-rate program areas that may need improvement.

We concluded that Children's was not compliant with the requirements of the E-rate program for funding year 2000. The audit resulted in four specific findings and $491,447 identified as potential fund recoveries. Funds paid out for internal connections and internet access were recommended for 100% recovery primarily because Children's did not pay their non-discounted portion of the costs.

Audits

The findings of this audit are as follows:

1. The beneficiary did not pay the non-discounted portion of the costs for internal connections and internet access.
2. The service provider billed and received payment for recurring maintenance costs that were not provided during the funding year, in an overpayment of $28,014.
3. The service provider billed and received payment for internet access costs that were not provided during the funding year, resulting in an overpayment of $20,412.
4. There was no documented competitive bidding process.

Additionally, we have reported as an "Other Matter" that the system we observed at Children's appeared to be underutilized.

We recommended full recovery to Wireline Competition Bureau (WCB) and Universal Service Administrative Company (USAC) in the amount of $491,447 in addition to a review of program rules and regulations to adequately evaluate future applicants and to ensure future procedural compliance.

2. Report on Audit of the E-rate program at St. Augustine School (Audit Report No. 02-AUD-02-04-017 issued on May 19, 2004)

The objective of this audit was to assess the compliance of the beneficiary with the Universal Service Fund (USF) and to identify program areas that need improvement. St. Augustine is a parochial school located in the Bronx borough of New York City. St. Augustine was approved for a 90% discount rate in Funding Years (FY) 1998-2000. The period of this audit was for FY's 1998-2000 covering January 1, 1998 to June 30, 2001. Our audit of St. Augustine revealed that they were not compliant with the rules and regulations of the E-rate program. The audit resulted in four specific findings and $21,600 identified as potential fund recoveries. The specific audit findings are as follows:

1. The beneficiary did not pay the entire non-discounted portion of the costs for internal connections and internet access.

2. Internal connections equipment purchased with E-rate funds were missing and unauthorized substitutions of equipment were made, resulting in overpayments of $4,314.
3. The service provider billed for T-1 internet access provided less functional integrated services digital network (ISDN) service, resulting in overpayments of $17,286.
4. There was no documentation to support a competitive bidding process.

Additionally, we have reported as an "Other Matter" that the supporting documentation for the implementation of and compliance with the E-rate program at St. Augustine was generally very poor.

We have made recommendations to the Wireline Competition Bureau (WCB) and Universal Service Administration Company (USAC) to recover $21,600 distributed to the beneficiary. We have recommended that WCB and USAC take the necessary steps to review funding requests and program rules to adequately protect the interests of the fund.

3. Report on Audit of the E-rate program at Southern Westchester Board of Cooperative Educational Services (SWBOCES) (Audit Report No. 02-AUD-02-04-003 issued May 25, 2004)

The audit objective was to assess compliance of the beneficiary with rules and regulations of the E-rate program and to identify areas that are in need of improvement. SWBOCES is a New York state regional public education collaborative. The purpose of SWBOCES is to provide shared educational and management services to schools and school districts in its geographic region, which covers 35 school districts serving over 100,000 students in the southern half of Westchester County. The audit was for Funding Year 1999 and the period of the audit was from July 1, 1999 to June 30, 2000. Our audit of the use of E-rate funds at SWBOCES disclosed that the beneficiary was compliant with requirements of the program for Funding Year 1999.

Audits

4. Report on Audit of the E-rate program at United Talmudical Academy (UTA) (Audit Report No. 02-AUD-02-04-006 issued on June 7, 2004)

The audit objective was to assess the beneficiary's compliance with the rules and regulations of the E-rate program and to identify areas in which to improve the program. UTA is a Jewish orthodox school located in the Borough of Brooklyn, New York City. The period of our audit was from July 1, 1999 to June 30, 2000 for Funding Year (FY) 1999 of the E-rate program. Our audit concluded that UTA was not compliant with rules and regulations of the E-rate program. The audit resulted in four (4) findings and $934,300 identified as potential fund recoveries. The findings are as follows:

1. The beneficiary has not paid the entire non-discounted portion of FY 1999 funding on a timely basis, resulting in a recommended funding recovery of $934,300.
2. The service provider billed and received payment for recurring monthly maintenance services for wiring and equipment that were not provided, resulting in overpayments of $27,478.
3. There was no documentation to support a competitive bidding process.
4. UTA included ineligible charges for telecommunications services that were inappropriately reimbursed on FCC Form 472 BEAR Forms.

In addition, we have reported as an "Other Matter" in the audit report that management controls to monitor purchases of E-rate equipment and asset inventory records were inadequate to ensure the funds are being utilized efficiently.

We have made recommendations to the Wireline Competition Bureau (WCB) and Universal Service Administration Company (USAC) to recover the amount of $934,300 disbursed to UTA in FY 1999. In addition, we have recommended that WCB and USAC take the necessary steps to review funding requests and program rules to adequately protect the interests of the fund.

Audits

5. Report on Risk Assessment Survey of the Federal Communications Commission's Human Capital Management Framework (Audit Report No. 03-AUD-06-08 issued June 8, 2004)

We designed and conducted this assessment by comparing the Commission's strategic management of human capital to the following six Office of Personal Management (OPM) Human Capital Assessment and Accountability Framework standards and assigned a level of risk of the Commission not achieving each standard:

1. Strategic Alignment
2. Workforce Planning & Deployment
3. Leadership & Knowledge
4. Results-Oriented Performance Culture
5. Talent
6. Accountability

Job Performance Systems, Inc. (JPS), as tasked by the FCC OIG, conducted a risk assessment of the Human Capital Management Framework (HCMF) as currently employed by the Commission. The assessment was conducted between July 1, 2003 and December 31, 2003. The intention of this survey was to perform a risk assessment, however, we have identified areas of the Commission's HCMF where immediate improvements could be made. Thus, the findings and recommendations will be tracked and monitored in the same manner as audit findings. The findings of the FCC risk levels when OPM standards are applied are as follows:

1. Strategic Alignment—Low Risk
2. Workforce Planning & Development—Medium Risk
3. Leadership & Knowledge—Low Risk
4. Results-Oriented Performance Culture—High Risk
5. Talent—Low Risk
6. Accountability—Medium Risk

We found that there was one area of high risk—Results-Oriented Performance and Culture—and two areas of medium risk—Workforce Planning & Development and Accountability—that will require further review after the Commission implements changes to reduce risk levels in those areas. In addition, we have made recommendations that should be implemented by the Commission to further develop its human capital management strategy. The recommendations were as follows:

1. Compile the Commission's existing human capital strategies into a single comprehensive Human Resources Management Strategy and deploy to all employees.
2. Revise the Commission's performance appraisal system to efficiently identify low and high performing employees.
3. Create a comprehensive system for tracking and measuring employees' progress in accomplishing mission goals and objectives.

6. Report on Audit of NBANC Request for Equitable Adjustment Proposal (Audit Report No. 04-AUD-03-02 issued on June 25, 2004)

The audit objective was to review NBANC's request for equitable adjustment for work performed beyond the scope of the original order. NBANC submitted an original proposal of $58,439.00 for reimbursement for work performed beyond its 1998 agreement with the Commission. Due to our initial audit findings, NBANC was unable to provide documentation necessary to substantiate the increased costs and resubmitted a revised proposal for $27,990.80. As a result of our audit, we questioned $30,448.20 of NBANC's original request of $58,439.00 for the equitable adjustment proposal. The questioned amount represents the difference between NBANC's original $58,439.00 proposal and its $27,990.80 revised proposal. NBANC representatives concurred with our findings and resubmitted its revised proposal on March 30, 2004. Our results find that NBANC provided adequate support for its revised proposal and determined it to be adequate for negotiating fair and reasonable billing rates with the Commission.

7. Disaster Plan Recovery Plan Survey (Report No. 03-AUD-12-27 issued on July 27, 2004)

In the post 9/11 environment, disaster recovery planning and business continuity are critical. In 2002, the FCC began an intensive effort to develop a disaster recovery plan (DRP). The OIG conducted a survey of the DRP process. The objective of this survey was to assess adequacy of the FCC's DRP and report upon its progress. Another goal was to determine if the FCC was able to test its DRP during the Federal government's "Forward Challenge" test of critical infrastructure protection (CIP) plans. The FCC has made considerable progress in its DRP program in 2004. The Chief Information Officer (CIO) and his staff have developed a comprehensive DRP to support the recovery of IT systems if an incident disrupts services. The DRP, however, is not complete. The DRP needs to include how the FCC will handle major applications in an emergency and must also document how the major applications will be handled during a disaster. When both of these events occur, the DRP will be complete. Based on the results of this survey, additional audit work is not warranted relating to DRP activities.

8. Report on Audit of the E-rate Program at Annunciation Elementary School (Audit Report No. 02-AUD-02-021 issued on August 12, 2004)

The objective of this audit was to assess the beneficiary's compliance with the rules and regulations of the USF program and to identify program areas which may need improvement. Annunciation Elementary School (AES) is a Catholic school located in New York City. AES was approved for a 90% discount rate for Funding Years (FY) 1998-1999 and 2000-2001. The period of our audit was for FYs 1998 through 2001, covering January 1, 1998 to June 30, 2002. We concluded that AES was not compliant with E-rate program rules and regulations and identified $129,003 as potential fund recoveries. The audited resulted in six (6) specific findings. The findings are as follows:

1. AES signed contracts for internal connections and Internet access prior to the 28 day waiting period, resulting in a potential

funding recovery of $109,175 or 100% of funds disbursed for FY 1999.

2. The service provider billed and received payment for Internet access costs that were not provided, resulting in overpayment of $19,704.
3. Internal connections equipment units were not provided and unauthorized substitutions were made resulting in overpayments of $4,498.
4. The service provider billed and received payment for ineligible internal connections equipment resulting in overpayments of $3,942.
5. There was no documentation of a competitive bidding process.
6. AES was unable to provide support for the calculation of the E-rate program discount.

As an "Other Matter", we noted that the system we observed at AES appeared to be ineffectively utilized. Furthermore, we found that the technology plan for AES was approved and used for four (4) years while USAC procedures indicate that technology plans should not exceed three (3) years.

We recommend that the Wireline Competition Bureau and Universal Service Administration Company recover the amount of $129,003 disbursed on behalf of AES in funding year 1999. In addition, we have recommended that WCB and USAC take the necessary steps to review funding requests and program rules to adequately protect the interests of the fund.

9. Report on Fiscal Year 2004 Federal Information Security Management Act (FISMA) Evaluation and Risk Assessment (Audit Report No. 04-AUD-06-08 issued on September 20, 2004)

The Federal Information Security Management Act (FISMA) focuses on the program management, implementation, and evaluation aspects of agency security systems. FISMA requires that Inspectors General, or the independent evaluators they choose, perform an annual evaluation of each agency's information security program and practices. We contracted with KPMG, LLP to perform the independent evaluation.

On September 20, 2004, we issued a report entitled "FY 2004 Federal Information Security Management Act (FISMA) Evaluation and Risk Assessment," summarizing the results of our independent evaluation. In our determination, the FCC continues to demonstrate a commitment to protecting federal information resources and data of the Commission.

During the independent evaluation, we identified areas for improvement in the FCC's information security management, operational and technical controls. The evaluation identified one new finding in the area of operational controls. Additionally, we determined that eight of the conditions identified during the FY 2002 and FY 2001 Government Information Security Reform Act (GISRA) evaluations had not been fully corrected at the time of the audit fieldwork. As a result, we are addressing the conditions identified during this audit. Our recommendations will correct present problems and minimize the risk that future security problems will occur in the FCC's information security program.

As a result of the independent evaluation, we have concluded that the Commission has a generally effective information security program with acceptable practices for managing and safeguarding the FCC's information technology assets. On August 31, 2004, we provided a draft to the Office of Managing Director (OMD) for review and comments. In its response dated September 17, 2004, OMD indicated concurrence with the one new finding in FY 2004, and seven of the eight conditions identified during the FY 2002 and FY 2001 GIRSA evaluations. For all findings, OMD outlined the corrective action taken and/or a milestone schedule for implementation of corrective action.

10. Flexible Work Schedule Survey (Audit Report No. 04-AUD-10-22 issued on September 27, 2004)

This project was conducted as a survey. The rationale behind this survey was to test policies and procedures of the Flexible Work Schedule and the employee's compliance with those procedures. This survey had two objectives: (1) Examine the FCC's internal controls by assessing the policies and procedures issued by the Commission regarding the Flexible Work Schedule (FWS) and, (2) Test employee compliance with FWS policies and ascertain whether employees are claiming credit hours they are not working.

Based on the results of this survey, we found a significant number of employee non-compliances with policies and procedures. We have identified instances of potential abuse, and determined that an audit of the Commission's payroll management and financial controls is warranted. Accordingly, we have initiated an audit to determine whether timekeeping abuse is occurring on a wide-scale basis and examining the Commission's related payroll management and financial controls.

11. Report on Audit of the Federal Communications Commission Transit Benefit Program (Audit Report No. 04-AUD-02-02 issued on September 27, 2004)

The OIG initiated an audit of the Commission's Transit Benefit Program (TBP) as part of its annual audit plan and in response to FCC management concerns of a possible increased risk of waste, fraud, or abuse due to the increase in allowable monthly reimbursements from $65 to $100 on January 1, 2002.

The objective of this audit was to assess the policies and procedures issued by the Commission for the transit subsidy benefit program for compliance with applicable regulations and union agreements, testing the Commission's internal controls for compliance with the Commission's internal controls for compliance with the program requirements, testing employee compliance with program participation requirements, and reaching an overall opinion as to the program's control system and compliance with requirements and identifying areas where operational improvements can be made.

In our opinion, the Commission's TBP is in compliance with the government's transit benefit rules and regulations. We did not find indications of significant abuse by benefit recipients from our random and judgmental samples. However, we did find that the Commission's TBP policies and procedures are not adequate. We found that the Commission relies on Appendix D of the labor bargaining agreement between the FCC and the NTEU as the policies and procedures for operating its TBP. Appendix D is very general and does not provide detailed guidance to administrators or transit benefit recipients.

As a result, we have identified four recommendations to address the finding. They are as follows:

1. Design more comprehensive TBP policies and procedures.
2. Make the policies and procedures available on the FCC intranet site.
3. Establish formal notification procedures for communicating and Program changes or issues.
4. Require the Transit Benefit Coordinator to conduct random or regular checks of employee information.

Commission management concurred with our recommendations and outline procedures for implementing each recommendation. This will provide the framework for complying with and administering the Program and significantly reduce the risk of waste, fraud, and abuse.

12. Physical Security of Enforcement Bureau Facilities and Monitoring Stations (Audit Report No. 03-AUD-07-10 issued September 29, 2004)

The objectives of this review were to assess the physical security posture of the Enforcement Bureau (EB) and Monitoring Station Facilities and to ensure security upgrades complied with Federal recommendations and other applicable regulations and standards. To accomplish this audit, our office has contracted with the consulting firm of Job Performances Systems, Inc. (JPS). The purpose of this review was to determine whether EB facilities had identifiable vulnerabilities and opportunities for improvement in the FCC's physical security posture. Overall, positive security controls were in place at EB facilities. It was evident that EB took proactive measurements to ensure the safety and security of the employees, property, and other assets of the Commission. We also identified areas of improvement for the security controls over EB field sites. Eight (8) specific conditions for improvement have been identified as follows:

1. Attacks at Two or More DF Sites Endanger the Entire Program
2. Lack of Formal DF Site Physical Security Standards.
3. Security Issues at the Santa Isabelle DF Site
4. Dummy Camera in the Atlanta Field Office
5. Unlocked Roof in the Atlanta Field Office
6. EDG Forklift Training
7. EDG Safety Issues
8. Asbestos in the Buffalo Resident Agent Office Building

We recommend that the findings we identified be corrected to strengthen the Commission's physical security program. Our recommendations will correct present problems and minimize the risk that future security problems will occur. All open findings will be tracked for reporting purposes.

13. Audit Finding Notification—Lack of Adequate Facility Maintenance in the Anchorage Field Office (Issued on September 30, 2004)

In May 2004, OIG visited the Commission's Anchorage field office as part of the fiscal year 2004 financial statement audit and identified some facility maintenance issues unrelated to the objectives of the financial statement audit. Still, these issues needed to be brought to management's attention. The Anchorage facility is showing evidence of neglect, which may put the safety of our employees at risk and discourage potential tenants.

The Anchorage field office has only two (2) resident agents occupying a building that once operated as a 24-hour monitoring station with thirteen (13) FCC staff. Most of Anchorage's office space is unoccupied and building maintenance appears to be severely neglected. The two-person staff has neither the time nor the necessary equipment to maintain the building as is needed. We have identified three (3) areas that are in need of maintenance and have made recommendations to management accordingly. The agency concurred with our recommendations and intends to take actions to remedy the situation.

IV. Work-In-Process Reports on the following audits that were not completed as of the date of the publication of this report.

In our previous Semiannual Report (for the six month period ending March 31, 2004) we reported seven audits and one survey in process as well as our on-going contracting services. Of the seven open audits, four have been completed.

The following audits and survey remain in process:

1. FY 2004 FISMA Evaluation

The Federal Information System Management Act (FISMA) focuses on the program management, implementation and evaluation aspects of agency security systems. A key provision of the legislative requirements is that the Inspector General perform an annual independent evaluation to examine the Commission's security program and practices for major 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 Security Act assessment tool to evaluate the effectiveness of the Commission's information security program and assess risk for each component of the program.

2. Continuity of Operations (COOP) Audit

In the post 9/11 environment, contingency planning and business continuity are critical. In 2002, the FCC began to develop and business continuity plans. The objective of this audit is to determine the progress of FCC's contingency planning and business continuity program and the determine if the FCC has a useable and viable program. This review will provide the Chairman with an independent and comprehensive analysis on the current posture off the FCC's business continuity program.

Audits

3. Audit of the Commission's FY 2004 Financial Statement

The FCC is a covered agency under the Accountability of Tax Dollars Act of 2002. As a covered agency, FCC prepares financial statements in accordance with generally accepted accounting principles per the Government Management Reform Act (GMRA) of 1994 which amended the Chief Financial Officers Act (CFO Act) of 1990 to require annual preparation and audit of organization-wide financial statements.

This audit will be performed as part of our commitment to support management's efforts to align the FCC's financial accounting and reporting systems with related accounting principles, federal laws and regulations, and policy guidelines. This is not only important internally to the FCC's operations, but is also necessary to the audit of the Consolidated Financial Statements of the United States. The objective of this audit is to provide an opinion on the FY 2004 financial statements.

In accordance with the Accountability of Tax Dollars Act of 2002, FCC prepares consolidated financial statements in accordance with Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Agency Financial Statements,* and subjects them to audit. The Chief Financial Officers Act of 1990 (Public Law 101-576 referred to as the "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, CG-LLP, an independent accounting firm, is performing the audit of FCC's FY 2004 financial statements.

At the close of this semi-annual period, CG-LLP and OIG auditors have substantially completed comprehensive planning and recently initiated interim testing of internal controls. Interim substantive testing is planned for the March 31 and June 30 submissions to OMB. The OIG expects to issue the Independent Auditors' Reports in the first quarter of FY2005 in accordance with the accelerated year-end financial statement submission date of November 15, 2004.

4. Survey of Fee Collections

The objective of this survey is to examine the Commissions fee collection process to determine whether we can reasonably assure that all applicable licensing and regulatory fees are being collected. The OIG will review both manual and automated controls over the fee collection process. We will also attempt to decide if a viable process exists to determine if all licenses have paid their applicable fees.

5. FY 2004 North American Numbering Plan Administration (NANPA) and Thousands Block Pooling Systems Transfer Viability Audit

The objective of these two audits is to determine whether the NANPA and Thousands Block Pooling systems, including all associated software and hardware, are in compliance with contract terms for portability should NANPA administrators change. An audit is necessary to ensure that the software which is FCC property can be moved with little or no disruption should another contractor be awarded the contract when it is recompeted.

6. Audits of Contractor Timekeeping Systems

The objectives of these audits are to: 1) evaluate the adequacy and effectiveness of the contractor's internal controls and procedures to ensure the reliability of employee time records and 2) perform a physical observation of contractor work areas to determine that employees are actually at work, that they are performing in the assigned job classification and that the time is charged to the appropriate job. Timekeeping system audits are in progress for four FCC contractors at the current time.

7. Audit of Contracts and Purchasing

The audit will provide the Commission with an independent and comprehensive evaluation and assessment of the activity. The primary objectives of this audit are to determine whether or not the Commission: (1) solicits, awards and administers contracts in accordance with Federal and Commission requirements; (2) ensures that expenditures are reasonable and necessary; (3) ensures that purchases are under contract when warranted; (4) funds, lets and administers contracting activities in an economic and efficient manner; and (5) performs, or has the expertise to perform, appropriate oversight of contractor activities and operations.

8. Review of the Integrated Spectrum Auctions System (ISAS)

ISAS is planned to be the replacement for the Automated Auctions System (AAS). The objectives of this review are to: (1) monitor and assess compliance of ISAS with the Commission's systems development life cycle (SDLC); (2) establish if effective security controls have been designed and built into ISAS; and (3) determine that the ISAS project has not experienced any significant cost overruns, unanticipated expenditures, and project delays.

9. Audit of Network Infrastructure Controls

This review is being conducted as part of our examination of the FCC's security posture. The objective of this work is to determine the extent and effectiveness of security controls over the FCC's network infrastructure. It encompasses a review of major categories of general controls associated with the network security such as access controls, service continuity, and security program planning and management.

10. Audit of Wireless Network Controls

This review is being conducted to provide an independent and comprehensive analysis of the information security posture of the FCC's wireless network. It encompasses an evaluation of the efficacy of wireless network security controls, including access controls, use of passwords, application audit trails, and change controls. Controls of selective FCC and non-FCC systems that exchange information with wireless systems are included in the scope of the review.

Audits

11. Vendor Master Survey

This review is being conducted to prevent fraud in the accounts payable payment process. The objective is to identify vendors who have both post office boxes and street addresses, then to verify that the post office box belongs to the particular company's street address.

12. Mailroom Safety and Security

This review is being conducted as part of our examination of the FCC's security posture. The objective of the review is to identify vulnerabilities and opportunities for improvement in the safety and security of the FCC's mail room operations.

13. Prompt Pay Audit

The objective of this audit is to determine whether the Commission's policies and procedures comply with the Prompt Pay Act by: (1) paying bills on-time, remitting interest penalties when payments are made late, assuring that goods and services are paid for when received, and taking discounts that are advantageous to the government; (2) accurately reporting payments and progress made with respect to complying with the Act; and (3) assessing the reliability of its payment process.

14. Payroll Management and Financial Controls Audit

The purpose and objective of the audit is to document, review and test the payroll process ; documenting key internal controls over payroll and related areas; testing key controls and ensure transactions recorded in the payroll system are supported by appropriate pay-affecting documents and that costs are charged to the right program; performing separate tests on leave and earnings data; and assessing risk of errors or other problems in recording, reviewing and reconciling payroll transactions.

15. Draft Report on the Cable Operations & Licensing System (COALS) Security Survey (Draft Audit Report No. 04-AUD-09-16 issued on August 31, 2004)

The objectives of this review are to: (1) review password and login security protocols for the COALS application to insure unwanted entry attempts are denied; and (2) to determine if the current security measures comply with FCC Computer Security Program Directive 1479.2 and OMB "E-Authentication Guidance for Federal Agencies" Memorandum M-04-04. Our survey initially disclosed several positive observations on COALS security and has identified one finding.

16. Draft Report on Follow Up to the Audit of Web Presence Security (Draft Audit Report No. 03-AUD-09-21 issued on August 31, 2004)

The objective of this follow-up audit was to determine the current status of conditions identified in Audit Report No. 00-AUD-01-10, entitled "Audit of Web Presence Security" that was issued on June 13, 2001. Recommendations have been made to the Wireless Telecommunications Bureau and the Office of Managing Director to prepare a response to the recommendations.

17. Draft Report on Physical Security Review of Gettysburg Site (Draft Audit Report No. 03-AUD-07-10-1 issued on September 28, 2004)

The objectives of this review were to obtain and verify the status of the physical security posture at Gettysburg and to identify security upgrades to ensure required compliance with Federal recommendations and other applicable regulations and standards. It was evident that the Gettysburg office placed a high value on the safety and security of its employees, facilities and other assets. Most recommendations that had been listed in the Gettysburg Site Interim Physical Security Review, audit report number 02-AUD-03-11, dated October 28, 2003, had been resolved. Specifically, safety issues, issues with locks and security during construction had been resolved. However, four (4) findings were identified. We recommend that the findings identified be corrected to strengthen the Commission's physical security program.

18. Audit of the FCC's Auction-Related Accounting

The Omnibus Budget Reconciliation Act of 1993 authorized the FCC to auction licenses for the use of portions of the electromagnetic spectrum. In addition to providing the Commission with this authority, the legislation authorized the Commission to retain a portion of the auction revenues to recover the costs in developing and implementing the auctions program. The objectives of this audit are to identify possible duplicative activities in both FCC's auction-related accounting and FCC's appropriated accounting, and to evaluate the Annual Auctions Expenditure Report submitted to Congress in relation to the Reports Consolidation Act of 2000.

19. Audit of Loan Portfolio and Related Activity

The Commission has a loan portfolio comprised of approximately 2,000 installment loans. In recent years, the portfolio received increased scrutiny due to its materiality on the FCC's financial statements. Several recent changes affect the internal control associated with 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 to become the system of record for FCC's loan activity in the future. During this time, the Financial Operations office reorganized and reassigned responsibilities impacting the loan environment. The primary objective of this audit is to assess the transition of the loan portfolio from the FCC to a loan service provider environment. This audit has been delayed by the FCC's inability to transition the loan activities to the service provider. This action has only been recently completed.

Audits

20. Survey of the Universal Service Fund (USF) High Cost Program

In Calendar Year 2003, the USF High Cost Program disbursed $3.27 billion in support to telecommunication carriers in high cost/rural service areas. The program has not been subjected to a comprehensive program of audit and oversight by this office. We have initiated an audit survey of this program to identify areas of risk, potential vulnerabilities and compliance with program requirements and regulations. The results of the survey will be used to design an oversight program to ensure that the High Cost Program is not subject to fraud, waste and abuse.

21. Audit Support for USF Investigations

In addition to conducting audits, we are currently providing audit support to a number of E-rate recipients and service providers. Our level of involvement in these investigations ranges from tracking and monitoring cases that are being investigated by state and local law enforcement to activity providing audit support to the FBI and Department of Justice (DOJ) investigators in the form of audits and limited scope reviews. We are actively supporting 22 investigations and monitoring an additional 15 investigations.

22. Audits of USF E-rate Beneficiaries

The objective of audits of E-rate beneficiaries is to evaluate beneficiary compliance with program rules and requirements and to identify program areas which may need improvement.

In January 2003 we executed a Memorandum of Understanding (MOU) with the Department of Interior (DOI) Inspector General. Six audits are in progress under this MOU. These include two audits of the Department of the Interior Bureau of Indian Affairs, an audit of the United States Virgin Islands Department of Education, and three audits of private schools in the USVI as described below:

Audits

22A. Draft Report on Audit of the E-rate Program at St. Joseph High School, St. Croix, U.S. Virgin Islands (Draft Audit Report No. R-GR-FCC-0008-2003 issued on September 1, 2004)

Our office has completed fieldwork for an audit of the E-rate program benefits received by St. Joseph High School (the School), a beneficiary of the Universal Service Fund (USF). The objective of this audit was to assess the beneficiary's compliance with the rules and regulations of the USF program and to identify areas in which to improve the program.

Our draft report has concluded that the School did not comply with key requirements of the E-rate program for funding year 2000. Five (5) findings were identified and $136,851 was found to be potential fund recoveries. There were problems with the technology plan, the payment of the non-discounted portion, a failure to maintain records, and the services for a planned local area network (LAN). We recommend that the Wireline Competition Bureau (WCB) direct the Universal Service Administration Company (USAC) to recover the amount of $136,851 disbursed on behalf of St. Joseph High School in funding year 2000. In addition, we recommend that WCB and USAC take the necessary steps to review program rules and procedures in order to prevent future noncompliance in order to adequately protect the interests of the fund.

22B. Draft Report on Audit of the E-rate program at St. Mary's Catholic School, St. Croix, U.S. Virgin Islands (Draft Audit Report No. R-GR—FCC-0007-2003 issued on September 1, 2004)

Our office has completed fieldwork for an audit of the E-rate program benefits received by St. Mary's Catholic School (the School), a beneficiary of the Universal Service Fund (USF). The objective of this audit was to assess the beneficiary's compliance with the rules and regulations of the USF program and to identify areas in which to improve the program.

Our draft report concluded that the School was not compliant with key requirements of the E-rate program for funding year 2000. The audit resulted in four (4) findings and $120,051 in potential fund recoveries. There were issues with the technology plan, the payment of the non-discounted portion, and record maintenance problems. We recommend that the Wireline Competition Bureau (WCB) direct the Universal Service Administrative Company (USAC) to recover the amount of $120,051 disbursed on behalf of St. Mary's Catholic School in funding year 2000. In addition, we recommend that WCB and USAC take the necessary steps to review program rules and procedures in order to prevent future noncompliance in order to adequately protect the interests of the fund.

22C. Draft Report on Audit of the E-rate program at St. Patrick Catholic School, St. Croix, U.S. Virgin Islands (Draft Audit Report No. R-Gr-FCC-0009-2003 issued on September 1, 2004)

Our office has completed an audit of the E-rate program benefits received by St. Patrick Catholic School (the School), a beneficiary of the Universal Service Fund (USF). The objective of this audit was to assess the beneficiary's compliance with the rules and regulations of the USF program and to identify areas in which to improve the program. This audit was conducted by the Department of Interior OIG for the FCC OIG.

Our draft report concluded that the School was not compliant with key requirements of the E-rate program for funding year 2000. The audit resulted in five findings and $137,571 in potential fund recoveries. There were issues with the technology plan, the payment of the non-discounted portion, record maintenance problems, and the services for a planned local area network (LAN). We recommend that the Wireline Competition Bureau (WCB) direct the Universal Service Administrative Company (USAC) to recover the amount of $137,571 disbursed on behalf of St. Patrick Catholic School in funding year 2000. In addition, we recommend that WCB and USAC take the necessary steps to review program rules and procedures in order to prevent future noncompliance in order to adequately protect the interests of the fund.

Audits

In December 2003, we initiated an E-rate beneficiary audit of the Brevard County School District location in Brevard County, Florida. This audit is being conducted using FCC OIG resources.

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 August 2004, we collaborated with the Internal Audit Division of USAC (USAC IAD) to initiate a body of E-rate beneficiary audits. The audits are being done by auditors from KPMG LLP under their contract with USAC. We are planning to conduct one-hundred audits as part of this project.

Management

Specialized Training and Activities

In our continuing effort to expand the expertise of our audit staff, one auditor attended the 10 day, non-criminal investigator training at the Federal Law Enforcement Agency in Georgia.

Report Availability

The OIG audit and other types of reports can generally be obtained via the Internet from the OIG web page located on the FCC website at http://www.fcc.gov/oig. However, OIG reports containing sensitive or proprietary information will be restricted to specific individuals and organizations with a need to know the detailed information.

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 UC Berkeley, UC Davis, American University, Georgetown University, DePauw University, University of North Carolina, Xavier University, and James Madison University.

These internships prove to be a rewarding experience for both parties. Students leave with a good understanding of how a government agency is run, and they have the opportunity to encounter the challenges involved in governance and regulation. In turn, the office benefits from the students' excellent work performance that reflects their youth and exuberance.

Investigations

OVERVIEW

Investigative matters pursued by this office are generally 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. Upon receipt of 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.

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 within the jurisdiction of the OIG is alleged, 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 the Commission responding to complaints that are outside the jurisdiction of this office. In many instances where the nature of the complaint does not fall within the jurisdiction of the OIG, a copy of the response is also provided to the OIG. 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-seven cases were pending from the prior period. Forty-two 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 eleven non-USF complaints were received during the current reporting period. Over the last six months thirteen cases, five USF and eight non-USF related, have been closed. A total of forty-five cases are still pending, of which thirty-seven relate to the USF program. The OIG continues to monitor, coordinate and/or support activities regarding those thirty-seven investigations. The investigations pertaining to the pending eight non-USF cases are ongoing.

STATISTICS

Cases pending as of March 31, 2004...47

New cases..11

Cases closed..13

Cases pending as of September 30, 2004...................................45

SIGNIFICANT INVESTIGATIVE CASE SUMMARIES

- The OIG initiated an inquiry into allegations of the possible abuse of authority by a Commission employee with regard to the rendering of an administrative decision denying a licensee's request for an extension for construction of a broadcast tower. Specifically, it was alleged that the employee who rendered the decision pursuant to delegated authority intentionally relied on false information in rendering the decision. The false information concerned the purported filing of a request or application with the Federal Aviation Administration (FAA) for an aeronautical study by the recipient of a previously issued FAA aeronautical clearance.

  A review of the matter indicated that the FAA erroneously notified the recipient that the previously granted clearance had expired. At that point it appeared that the recipient indicated that he wanted the clearance to remain in effect and the FAA initiated action to renew the clearance, which entailed the performance of a new study. In rendering the decision, the employee interpreted language in FAA correspondence confirming the initiation of the new study to indicate that the licensee had precipitated the new study. While it was determined that the interpretation was in error, the OIG found insufficient evidence to conclude that the employee intentionally used erroneous information in rendering the decision. Consequently, no evidence of employee misconduct was found. Further, it was determined that the information was not a determining factor in the decision. Accordingly, the matter has been closed.

- The OIG initiated an inquiry into the possible improper destruction and/or removal of information on a Commission computer work station. The matter is currently pending.
- The OIG initiated an inquiry into the mailing of correspondence purportedly on Commission stationery to an officer with a local police department. It was determined that the correspondence was sent as a hoax by a colleague of the officer in question. Accordingly, the matter was closed.
- The OIG initiated two inquiries into the release of non-public information with respect to the Commission's consideration of matters related to spectrum allocation and spamming. The matters are currently pending.
- The OIG initiated an inquiry into allegations of the improper transfer of a radio license. Specifically, it was alleged that based on improper considerations by the Commission, a radio license transfer was approved. The alleged improper considerations included abuse of authority by the ignoring of oppositions to the transfer and expediting the transfer approval in violation of appropriate regulations. It was determined that the dispute stemmed from a contractual relationship that had been litigated in the courts. No evidence of employee misconduct was found and the matter was closed.
- The OIG initiated an inquiry into allegations of improper conduct by a Commission employee with respect to the processing of a consumer complaint. The matter is currently pending.
- 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), 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.

Legislative Activity During This Period

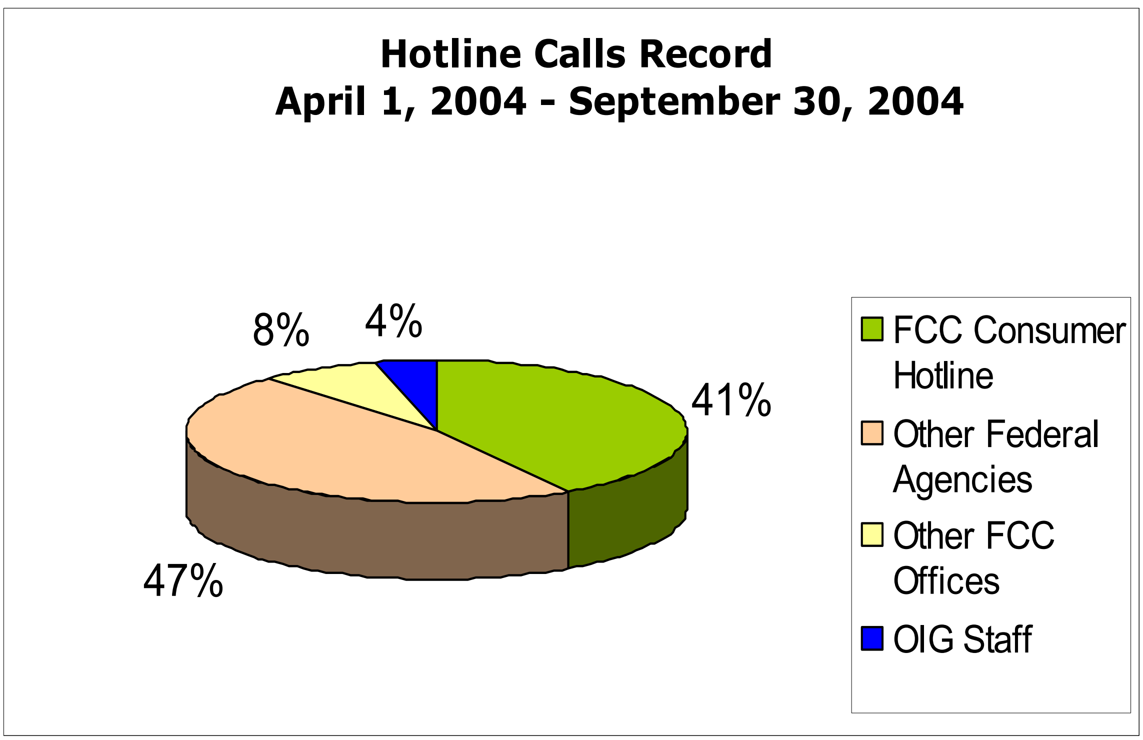
The Counsel to the IG continued to monitor legislative activities affecting the activities of the OIG and the FCC.

During this period, this office continued to monitor legislation and legislatively related proposals, which directly or indirectly impact on the ability of Designated Federal Entity IGs to function independently and objectively. As previously noted, the office monitored the legislation granting statutory law enforcement authority to certain designated OIGs. This office was not among the designated OIGs under the legislation. However, again as previously noted the legislation was monitored with respect to any possible indirect impact that it may have on this office's operations. Under the legislation, there are peer review requirements for the designated OIGs that may have an impact on the non-designated OIGs. In this vein, this office continues to work with and participate in discussions with other OIGs with respect to, among other things, the voluntary implementation of a peer review process for non-designated OIGs.

IG Hotline

HOTLINE CALLS

During this reporting period, the OIG Hotline Technician received approximately 59 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 National Call Center (NCC) at 1-888-225-5322. In addition, the OIG also refers calls that do not fall within its jurisdiction to such other entities as other FCC offices, federal agencies and local or state governments. Examples of calls referred to the NCC 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.



IG Hotline

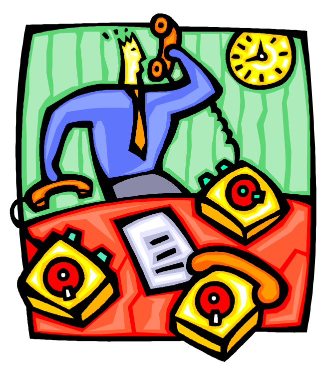
Report Fraud, Waste or Abuse to:

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.

ABC 2	OPER 0	ABC 2	
GHI 4	1	TUV 8	
OPER 0	GHI 4	PQRS 7	DEF 3



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.

Refer to the Section of the semiannual report entitled "Universal Service Fund" on pages 4 through 12.

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

Refer to the Section of the semiannual report entitled "Universal Service Fund" on pages 4 through 12.

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.

No 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 the reporting period.

Specific Reporting Requirements of the Inspector General Act

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 part II, above.*

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.

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.

No audit reports fall within this category.

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.

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 during the reporting Period.	5	$2,302,846	-
B. Which were issued during the reporting period.	5	1,606,798	-
Subtotals (A+B)	10	3,909,644	-
C. For which a management decision was made during the reporting period.	-	-	-
(i) Dollar value of disallowed costs	-	-	-
(ii) Dollar value of costs allowed	-	-	-
D. For which no management decision has been made by the end of the reporting period.	10	3,909,644	-
Reports for which no management decision was made within six months of issuance.	-	-	-

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.	-	-
Subtotals (A+B)	-	-
C. For which a management decision was made during the reporting period.	-	-
(i) Dollar value of recommendations that were agreed to by management.	-	-
-Based on proposed management action.	-	-
-Based on proposed legislative action.	-	-
(ii) Dollar value of recommendations that were not agreed to by management.	-	-
D. For which no management decision has been made by the end of the reporting period.	-	-
For which no management decision was made within six months of issuance.	-	-