

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: April 28, 2005

**REPLY TO
ATTN OF:** Inspector General

SUBJECT: Semiannual Report

TO: Chairman

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, 2005. In accordance with Section 5(b) of the Act, this Semiannual Report along with the report that you as head of the agency prepares, 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 because of continuing allegations of waste and fraud, and the results of beneficiary audits performed by contract auditors and Commission staff. Our efforts in this area have been summarized in a special section of this report entitled "Oversight of the Universal Service Fund."

The report details a number of audits underway and completed at the Commission during the preceding six months including the annual financial statement audit, the Federal Information Security Management Act (FISMA) evaluation and risk assessment, and several audits of contractors and contractual activities.

Investigative personnel continued to address investigative issues referred to and developed by this office. Where appropriate, investigative reports have been forwarded to management for action.

This office remains focused upon providing our customers with the highest possible level of professionalism and quality through our audits, investigations and consultations.

H. Walker Feaster, III
Inspector General

Enclosure

cc: Chief of Staff
Managing Director

Federal Communications Commission



**Office of the Inspector General
Semiannual Report to Congress
October 1, 2004 – March 31, 2005**

**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. Chairman Powell resigned on March 17, 2005. This caused a vacancy on the Commission. Kevin J. Martin was designated Chairman on March 18, 2005. Kathleen Q. Abernathy, Jonathan S. Adelstein and Michael J. Copps 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 thirteen professionals and a student intern. Principal assistants to the IG are: Steven Rickrode, Assistant Inspector General (AIG) for Audits; Thomas Bennett, AIG for Universal Service Fund Oversight; Charles J. Willoughby, AIG for Investigations; Thomas Cline, AIG for Policy and Planning, and Thomas Holleran, AIG for Management. Mr. Willoughby also serves as counsel.

This semiannual report includes the major accomplishments and general activities of the OIG during the period of October 1, 2004 through March 31, 2005.

Universal Service Fund (USF)

Independent Oversight of the Universal Service Fund (USF)

Beginning with our semi-annual 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 it was necessary to highlight our efforts to provide independent oversight of the USF to ensure that Congress and other recipients of our semi-annual report clearly understood our concerns about this program. We have also used this section of the semi-annual 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.

In this semi-annual report, we provide an update on our oversight activity during the reporting period. Specifically, we (1) discuss our participation in two congressional hearings related to waste, fraud and abuse in the E-rate program; (2) provide an update on OIG oversight activities; (3) provide an update on audits being conducted by other Federal Offices of Inspector General; and (4) summarize significant investigative activity.

Congressional Hearings

The United States Senate Committee on Commerce, Science and Transportation conducted a hearing on fraud, waste and abuse in the E-rate program on October 5, 2004. The Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce conducted a hearing on the E-rate program on March 16, 2005. Tom Bennett, the Assistant Inspector General for USF Oversight with the FCC OIG, testified in both hearings.

Senate Committee on Commerce, Science and Transportation – October 5, 2004

On October 5, 2004 the Senate Committee on Commerce, Science and Transportation 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 E-rate program. The Assistant Inspector General for USF Oversight testified on a panel that included George McDonald, Vice President of the Schools and Libraries Division of the Universal Service Administrative Company (USAC), Frank Gumper, Chairman of the USAC Board of Directors, and Winston Himsworth, President of E-rate Central.

In his testimony, the Assistant Inspector General for USF Oversight provided a brief summary of OIG involvement in USF oversight and discussed in general terms concerns that the OIG has with the E-rate program. The Assistant Inspector General for USF Oversight discussed the following concerns:

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)

- lack of clarity regarding program rules;
- lack of timely and effective resolution of audit findings;
- weaknesses in program competitive procurement requirements;
- ineffective use of purchased goods and services;
- over-reliance on applicant certifications;
- weaknesses in technology planning; and
- issues relating to discount calculation and payment.

House Subcommittee on Oversight and Investigations – March 16, 2005

On March 16, 2005 the Subcommittee on Oversight and Investigations held their fourth hearing on E-rate fraud, waste and abuse. The focus of this hearing was on an audit conducted by the Government Accountability Office (GAO) of FCC Management of the E-rate program (GAO Audit Report No. GAO-05-151 entitled “*Telecommunications: Greater Involvement Needed by FCC in the Management and Oversight of the E-Rate Program*, released on March 16, 2005). The Assistant Inspector General for USF Oversight testified on a panel with Jeff Carlisle, Chief of the FCC Wireline Competition Bureau, and Mark L. Goldstein, Director of Physical Infrastructure Issues with GAO.

In his testimony the Assistant Inspector General for USF Oversight provided a brief summary of OIG involvement in USF oversight and discussed in general terms concerns the OIG has with the E-rate program.

Update on OIG Oversight Activities

As we have discussed in previous semi-annual reports, the primary obstacle to implementation of effective, independent oversight has been a lack of adequate resources to conduct audits and provide audit support to investigations. This lack of resources has prevented us from completing the body of work necessary to assess fraud, waste and abuse at the program level. We are pleased to report that we have made significant progress addressing access to resources during this semi-annual reporting period.

In January 2005, we added two (2) additional audit staff to the USF team, increasing to five (5) the total number of staff dedicated to USF oversight. We were advised by Chairman Powell’s office that the OIG would receive two (2) additional staff for USF oversight.

In addition to audit staff, we have also requested appropriated funding to obtain contract support for our USF oversight activities. In our FY 2004 budget submission, we requested \$2 million for USF oversight. That request was increased to \$3 million in the President’s budget submission for FY 2004. This funding was not included in the Commission’s final budget for FY 2004 and report language indicated that monies for USF audits should come from the fund itself. In the FY2006 budget request funds in the amount of \$ 3.17 million were requested for USF oversight.

Based largely on that report language, we began to explore alternatives for obtaining access to contract audit support to implement the USF oversight portions of our audit plan. We have been working with USAC since last summer to establish a three-way contract under which the OIG and USAC can obtain audit resources to conduct USF audits. Under this contract, we intend to assess fraud, waste, and abuse at the program level by conducting a statistically valid

Universal Service Fund (USF)

sample of audits for each of the four USF funding mechanisms. The objectives of these audits are to: (1) detect waste, fraud and abuse by beneficiaries of the universal service support mechanisms, (2) deter waste, fraud and abuse by beneficiaries of the universal service support mechanisms, (3) generate insights about the compliance of beneficiaries with applicable law and the quality of administration of the universal service support mechanisms and (4) identify areas for improvement in the compliance of beneficiaries with applicable law and in the administration of the universal service mechanisms. An additional objective is to identify improper payments as defined by the Office of Management and Budget to estimate error rates for the Improper Payments Improvement Act of 2002 (IPIA). We released a Request for Proposal in November 2004 and expect to complete the selection process very soon.

We are also working with USAC and KPMG LLP, under contract to USAC, to conduct the fourth large-scale audit of E-rate beneficiaries. One hundred(100) beneficiaries are being audited as part of this project. The project was initiated in August 2004 and is expected to be completed next summer. A listing of all USF audits in process is included in the performance audit section of this semi-annual report.

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. In September 2004, we issued three (3) draft reports prepared by DOI OIG. Although the Commission's Wireline Competition Bureau prepared responses for these three (3) reports, the Commission's Audit Follow-up Official chose not to endorse those responses. We are waiting for the Commission to provide responses to these draft audit reports. We have been advised that the Wireline Competition Bureau is coordinating responses to these audit reports with the Office of the Chairman.

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.

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

Universal Service Fund (USF)

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 (7) field offices and the National Criminal Office. As of the end of the reporting period, we are supporting twenty-two (22) investigations and monitoring an additional fifteen (15) investigations.

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

In December 2004, Inter-Tel Technologies Inc. pled guilty and agreed to pay a total of \$8.71 million in criminal fines, civil settlement and restitution relating to charges of bid rigging and wire fraud in connection with the E-Rate program. Inter-Tel was charged with one count of allocating contracts and submitting rigged bids for E-Rate projects at two different school districts in Michigan and California. Inter-Tel also was charged with one count of wire fraud and aiding and abetting by willfully entering into a scheme to defraud the E-Rate program in San Francisco by inflating bids, agreeing to submit false and fraudulent documents to hide the planned installation of ineligible items, and submitting false and fraudulent documents to defeat inquiry into the legitimacy of the funding request. In January 2005, Inter-Tel received a notice of suspension and of proposed debarment from the E-rate program. The Inter-Tel case is part of a large, on-going investigation that we are continuing to support.

In October 2004, Qasim Bokhari and Haider Bokhari pled guilty to charges of conspiracy, fraud, and money laundering involving the E-rate program. According to court papers, in 2001, Qasim Bokhari and his company submitted applications for E-Rate Program funding on behalf of 21 schools in the Milwaukee and Chicago areas totaling more than \$16 million. Qasim Bokhari and his company eventually received more than \$1.2 million for goods and services that were not provided to three of these schools. Additionally, according to the charges, Qasim Bokhari, Haider Bokhari, and Raza Bokhari conspired to conduct numerous financial transactions involving the proceeds of the fraud to conceal and disguise the source of the proceeds. These alleged financial transactions include wiring more than \$600,000 to Pakistan, purchasing a residence, and acquiring several automobiles. In January 2005, Qasim Bokhari and Haider Bokhari were each sentenced to six-year prison terms. In February 2005, Qasim Bokhari and Haider Bokhari received notices of suspension and proposed debarment from the E-rate program.

Conclusion

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 Service Fund program. We believe we have made significant progress toward our goal of designing and implementing our oversight program. While the Commission has taken steps to address programmatic weaknesses, more work remains to be done. Through our participation in the fourth large-scale round of E-rate beneficiary audits with USAC and through audits that we anticipate conducting under our three-way agreement with USAC we are moving forward to evaluate the state of the program and identify opportunities for programmatic improvements.

Audits

- I. **Financial statement audits provide practical assurance about whether the financial statements of an audited agency present 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.**
1. **Report on the Federal Communications Commission Fiscal Year 2004 Financial Statements (Audit Report No. 04-AUD-05-07 issued on November 15, 2004)**

In accordance with the Accountability of Tax Dollars Act of 2002, 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 subjected them to 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 (CG-LLP), an independent certified public accounting firm, performed the audit of FCC's FY 2004 consolidated financial statements in accordance with the aforementioned standards; 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*.

In connection with the contract, OIG reviewed CG-LLP's reports and related documentation and inquired of its representatives. This review, as differentiated from an audit in accordance with *Government Auditing Standards*, was not intended to enable us to express, and the OIG did not express, an opinion on FCC's consolidated financial statements; conclusions about the effectiveness of internal control; conclusions on whether FCC's financial management substantially complied with the Federal Financial Management Improvement Act 1996; or conclusions on compliance with laws and regulations. CG-LLP is responsible for its report dated November 1, 2004 and the conclusions expressed therein. However, the OIG review disclosed no instances where CG-LLP did not comply, in all material respects, with *Government Auditing Standards*.

Opinion on the Financial Statements

CG-LLP issued an unqualified opinion on FCC's Consolidated Balance Sheets as of September 30, 2004 and 2003, the related Consolidated Statements of Changes in Net Position and Custodial Activity. CG-LLP opined that the financial statements referred to above present fairly, in all material respects, the financial position of the FCC as of September 30, 2004 and 2003, its changes in net position and custodial activity for the years then ended in conformity with accounting principles generally accepted in the United States of America. Additionally, CG-LLP issued a qualified opinion on FCC's Statement of Net Cost for the year ended September 30 2004 and an unqualified opinion for the year ended September 30, 2003. As a result of FCC management, in its representation letter to the auditor, not providing assurance on the accuracy and

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completeness of the fiscal years 2004 and 2003 Combined Statement of Budgetary Resources and the Consolidated Statement of Financing, CG-LLP disclaimed its opinion on these financial statements. As noted in its report, CG-LLP's disclaimer of opinion is different from that expressed in its previous report dated December 8, 2003.

Matters Pertaining to the Effectiveness of Internal Control Identified During the Audit

In performing its internal control testing of controls necessary to achieve the objectives in OMB Bulletin No. 01-02, CG-LLP identified matters relating to significant deficiencies in the design or operation of FCC's internal control that, in its judgment, could adversely affect FCC's ability to record, process, summarize and report financial data consistent with the assertions by management in the financial statements. Specifically, these matters were categorized as material weaknesses and reportable conditions per definitions of the American Institute of Certified Public Accountants.

CG-LLP identified material weaknesses in the areas of:

- Auction Transactions
- Oversight of Reporting Components
- Universal Service Fund Financial Accounting and Reporting Controls
- Reporting Components' Budgetary Accounting
- Information Technology
- Cost Allocation Logic

CG-LLP identified additional reportable conditions not considered to be material weaknesses, which include:

- Financial Reporting
- Cost Accounting
- Payroll Activities
- Debt Collection Improvement Act of 1996 Reporting
- Electronic Data Processing Controls
- Collateral for Deposits Held Outside of Treasury
- Federal Managers' Financial Integrity Act of 1982 Compliance and Reporting

Results of Tests of Compliance with Laws and Regulations

FCC management is responsible for complying with laws and regulations applicable to the agency. To obtain reasonable assurance about whether FCC's financial statements are free of material misstatements CG-LLP performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996. As appropriate, CG-LLP limited its tests of compliance to these provisions and it did not test compliance with all laws and regulations applicable to FCC.

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:

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- 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

In accordance with generally accepted government auditing standards the Independent Auditor's Report prepared by CG-LLP is dated November 1, 2004, the last day of audit fieldwork. Commission management agreed with the results of the audit.

2. Report on the Federal Communications Commission Fiscal Year 2004 Special-Purpose Financial Statements (Audit Report No. 04-AUD-11-25 issued on November 18, 2004)

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 Report System (GFRS) and the Federal Agencies' Centralized Trial-Balance System (FACTS I). These statements, 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.

In accordance with TFM, 4705.55 - *Audit Requirements for the Closing Package*, 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. CG-LLP, an independent certified public accounting firm, performed the audit of related FY 2004 special-purpose financial statements in conjunction with the FCC's FY 2004 general purpose financial statement audit.

In connection with the contract, OIG reviewed CG-LLP's reports and related documentation and inquired of its representatives. The OIG review of CG-LLP's work, as differentiated from an audit in accordance with *Government Auditing Standards*, was not intended to enable us to express, and the OIG did not express, an opinion on FCC's special purpose financial statements; conclusions about the effectiveness of internal control; or conclusions on compliance with laws and regulations. CG-LLP is responsible for its report dated November 18, 2004 and the conclusions expressed therein. However, the OIG review disclosed no instances where CG-LLP did not comply, in all material respects, with *Government Auditing Standards*.

CG-LLP issued a qualified opinion on the reclassified Balance Sheet as of September 30, 2004 and the related reclassified Statements of Net Cost and Changes in Net Position for the year then ended (the special-purpose financial statements). CG-LLP opined that, except for the qualification, the special-purpose financial statements present fairly, in all material respects, the financial position of the FCC as of September 30, 2004, and its net costs and changes in net position for the year then ended in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the TFM Chapter 4700.

Audits

In performing its internal control testing necessary to achieve the objectives of the TFM Chapter 4700 CG-LLP identified reportable conditions in internal control over the financial reporting process for the special-purpose financial statements in the areas of:

- Financial reporting
- Documentation of policies and procedures
- Failure to adhere to its internally negotiated agreed-upon lock dates for the GFRS
- Reclassifications

CG-LLP's tests of compliance with the TFM Chapter 4700 requirements disclosed no material instances of noncompliance that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02. Certain immaterial instances of noncompliance were noted and reported to the FCC in a separate letter dated November 18, 2004.

In accordance with *Government Auditing Standards* the Independent Auditor's Report on Special-Purpose Financial Statements prepared by CG-LLP is dated November 18, 2004, the last day of audit fieldwork. Commission management agreed with the results of the audit.

3. Report on the Federal Communications Commission Fiscal Year 2004 Agreed-Upon Procedures on Closing Package Intragovernmental Activity and Balances (Audit Report No. 04-AUD-12-26, issued on December 2, 2004)

In accordance with 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, 2004. Under a contract monitored by the OIG, CG-LLP, 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*. In accordance with these standards, CG-LLP made no representation regarding the sufficiency of these procedures. The sufficiency of the procedures is solely the responsibility of the Financial Management Service, GAO and OMB.

CG-LLP performed the agreed-upon procedures and reported on findings of differences between the closing package and the FCC's audited financial statements and general ledgers. The OIG review of CG-LLP's work, as differentiated from an audit in accordance with *Government Auditing Standards*, was not intended to enable us to make any representation regarding the sufficiency of the procedures, and the OIG did not provide any comments on their sufficiency. The report is provided for the purpose for which it was requested with no representation regarding the sufficiency of the procedures provided therein or for any other purpose. CG-LLP is responsible for its report dated December 2, 2004 and the conclusions expressed therein. However, the OIG review disclosed no instances where CG-LLP did not comply, in all material respects, with *Government Auditing Standards*.

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- 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 to oversee or initiate corrective action.**

1. **Inspector General Statement on the Federal Communications Commission's Fiscal Year 2004 Major Management Challenges (Report No.04-AUD-06-27 issued on October 15, 2004)**

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. We performed this assessment for inclusion in the Fiscal Year 2004 FCC Performance and Accountability Report. We identified the following six significant management issues facing FCC for fiscal year 2004:

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

On November 15, 2004, the Chairman provided comments on these challenges and a summary of the progress and status for each. In addition, he shared his commitment for resolving all the concerns that were identified.

2. **Report of Defense Contract Audit Agency (DCAA) on Titan Corporation FY 2004 Labor Timekeeping Review (Floorcheck) (Audit Report No. 6341-2005V10310002 issued on November 5, 2004)**

The purpose of this floorcheck was to assure that Titan Corporation's employees are performing their assigned jobs and charging their time to appropriate tasks. The floorchecks were conducted during October 18-22, 2004. The floorchecks determined that one corrective action was necessary to improve the reliability of their labor accounting system. The contractor concurred with the finding and agreed to implement corrective actions.

3. **Report of Defense Contract Audit Agency (DCAA) on Digital Systems Group, Inc. FY 2004 Labor Timekeeping Review (Floorcheck) (Audit Report No. 6701-2005K10310006 issued on November 24, 2004)**

The purpose of this floorcheck was to assure that Digital Systems Group's employees are performing their assigned jobs and charging their time to appropriate tasks. The floorchecks were conducted during October 11-15, 2004. The floorchecks determined that the contractor consistently complied with the established timekeeping system policies. DCAA's floorcheck disclosed no significant deficiencies in the contractor's timekeeping or labor systems.

4. **Report of Defense Contract Audit Agency (DCAA) on AAC Associates, Inc. FY 2004 Labor Timekeeping Review (Floorcheck) (Audit Report No. 6141-2005S10310011 issued on December 3, 2004)**

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The purpose of this floorcheck was to assure that AAC Associates' employees are performing their assigned jobs and charging their time to appropriate tasks. The floorchecks were conducted during November 3-5, 2004. The floorchecks determined that corrective actions were necessary due to an unacceptable timekeeping procedure. The contractor concurred with the findings and agreed to implement corrective actions.

5. Report on the Audit of the Federal Communication's Commission Auction-Related Accounting (Audit Report No. 01-AUD-09-34 issued January 4, 2005)

The Omnibus Budget Reconciliation Act of 1993 authorized the Federal Communications Commission (FCC) to auction licenses for the use of portions of the electromagnetic spectrum. FCC held its first round of auctions in 1994. At the end of FY 2004, FCC completed 53 auctions with total receipts exceeding \$14 billion and plans to hold more auctions in the future. The Commission has been authorized to retain a portion of auction revenues to recover the expenses in developing and implementing the auction program. These additional funds are not required to go through FCC's annual budgeting process for appropriated funds. Instead, they are annually apportioned to FCC by the Office of Management and Budget (OMB). However, before the FCC is allowed to access these funds, the Commission is required to issue an itemized statement of each expenditure in support of conducting auctions in its annual report to Congress.

The objectives of this audit were: (1) to identify possible duplicative activities occurring in both the FCC's auction-related accounting activities and FCC's salary and expenditures-related accounting activities, and (2) to evaluate the annual Auctions Expenditure Report submitted to Congress in relation to the Reports Consolidations Act of 2000 and other reporting requirements of FCC.

During our audit, we found two similar accounting activities occurring in both WTB and OMD: (1) the budget preparation process and (2) expenditure report data accumulation and reporting. Duplication of these activities has been inefficient and can lead to unreliable reporting. However, during FY 2002, at OMB's request, the budget preparation process was removed from WTB and subsumed by OMD. Although this strengthens the Auction Cost Recovery budget development process, some weaknesses continue because of the timing, causing duplicative budgeting processes, unreliable auction cost estimates reported to Congress, and the potential for mismanagement of auction funds. In addition, we observed significant deficiencies in the annual Auctions Expenditure Report submitted to Congress. For an activity that consumes nearly 25 percent of FCC's resources, we found the report to be untimely, and providing little information informing Congress about how those resources have been applied.

We made the following recommendations:

1. Coordinate the development of budgets.
2. Ensure that the Auction Cost Recovery estimates are developed using the budget process.
3. Develop and implement an agency-wide process that ensures duplicative requests are identified and prevented.
4. Assess methods for streamlining the auction expenditure reporting process.

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5. Include specific data collection requirements for preparing an Auctions Expenditure Report.
6. Develop a process to ensure that all financial data entered into FCC's official financial system of record is not changed unnecessarily.
7. Identify from the users of the report, members of Congress, OMB, and others, if they still need the report and/or what they need from the report.
8. Identify from FCC managers what they need from auction expenditure data and incorporate those needs into the managerial cost accounting system.
9. Coordinate the issuance of the Auctions Expenditure Report with issuance of FCC's audited financial statements, making the report more timely and part of the financial audit process.
10. Include the Chief Financial Officer and the Managing Director on concurrence of the draft report to ensure consistency and awareness of all FCC financial reports submitted to Congress.

Commission management concurred with all of our recommendations, with the exception of partial concurrence to recommendation number 7.

6. Report of Defense Contract Audit Agency (DCAA) on Electronic Consulting Services, Inc. FY 2005 Labor Timekeeping Review (Floorcheck) (Audit Report No. 6151-2005A10310018 issued on February 7, 2005)

The purpose of this floorcheck was to assure that Electronic Consulting Services' employees are performing their assigned jobs and charging their time to appropriate tasks. The floorchecks were conducted on January 12, 2005. The floorchecks determined that the contractor consistently complied with the established timekeeping system policies. DCAA's floorcheck disclosed no significant deficiencies in the contractor's timekeeping or labor systems.

7. Report of Defense Contract Audit Agency (DCAA) on Neustar, Inc. FY 2001 Incurred Cost Audit (Audit Report No. 6341-2001W10100001 issued on March 31, 2005)

The primary objective of an incurred cost audit is to examine a contractor's cost representations and express an opinion as to whether such incurred costs are reasonable; applicable to 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 Neustar, Inc. to establish indirect costs rates for FY 2001 incurred costs. These rates apply primarily to flexibly-priced contracts. DCAA limited the scope of their review based on no indications of audit risk being identified. DCAA found that, based upon their review, nothing came to their attention to indicate that costs claimed for FY 2001 were unallowable, unallocable or unreasonable.

III. Program audits assess whether the objective 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.

Audits

1. FY 2004 Federal Information Security Management Act (FISMA) Independent Evaluation (Report No. 04-AUD-06-08 issued on October 6, 2004)

The overall objective of the FISMA independent evaluation is to evaluate the effectiveness of the Commission's information security program. 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. We issued our report summarizing the results of our evaluation (FY 2004 Federal Information Security Management Act (FISMA) Independent Evaluation and Risk Assessment, Report No. 04-AUD-06-08 issued on September 20, 2003. Generally, we found the Commission's information technology security to be effective.

2. Report on the Cable Operation and Licensing System (COALS) Security (Report No. 03-AUD-09-12 issued on October 8, 2004)

As a result of previous audit findings on the security of FCC web-based e-filing, we conducted a survey of Cable Operations & Licensing System (COALS) web application security. This survey assessed the Commission's efforts to address audit observations and recommendations for this program area in general and the specific application.

Our survey disclosed several positive observations for COALS security. We found that access control and monitoring by system administrators needs to be improved. Our report included recommendations to improve the security of the COALS E-Filing web application. Commission management agreed with the results of the survey.

3. Report on Follow-up to the Audit of Web Presence Security (Audit Report No. 03-AUD-09-21 issued on October 22, 2004)

On June 13, 2001, we issued Audit Report No. 00-AUD-01-10, Audit of Web Presence Security. The report summarized the results of the audit of the FCC's program for managing its web presence. Web presence was defined as the infrastructures developed to maintain the Commission's systems that allow the public to submit applications and/or filings via the Internet. The objective of the FY 2001 audit was to measure the Commission's success at securing its web portals. The audit concluded that the FCC had an active and generally effective program for managing web presence security. The report cited several positive computer security controls. However, 38 security findings, for which corrective actions were recommended, were also identified. OIG engaged KPMG LLP to perform a follow-up audit to ensure that appropriate corrective actions have been implemented and to test the current security posture of the FCC's web presence.

As in the original audit of the FCC's web presence security, we identified several positive controls during the follow-up audit. However, the audit identified that corrective actions had not been fully implemented for all of the original audit findings. In addition, the follow-up audit disclosed five (5) new conditions. As a result of our review, we recommended that FCC prioritize resources to make improvements in its web security practices. Commission management concurred with eight findings and partially concurred with two findings.

Audits

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

This audit was conducted as part of our on-going physical security review program. The objectives of this review were to obtain and verify the status of the physical security posture at the FCC Gettysburg site and to identify security upgrades to ensure required compliance with Federal recommendations and other applicable regulations and standards. To accomplish the objectives of this audit, we contracted with the consulting firm of Job Performance Systems, (JPS).

There were many positive safety and security measures in place at the Gettysburg facility. Most of the recommendations that had been listed in a prior audit of Gettysburg (Gettysburg Site Interim Physical Security Review, audit report number 02-AUD-03-11, dated October 28, 2003) had been resolved. We identified four (4) conditions for improvement for the Gettysburg facility. We recommended that the findings we identified be corrected to strengthen the Commission's physical security program. Commission management agreed with the results of the audit.

5. Vendor Master Survey (Report No. 04-AUD-09-18 issued on November 22, 2004)

We performed this survey to ensure that the FCC is not sending payments to fraudulent businesses or addresses. The objective was to identify vendors that have both post office and street addresses and then to verify that the post office box belongs to that particular company.

We analyzed the FCC vendor master list and identified vendors that had post office box addresses. We then sent letters to the post office responsible for those boxes to confirm the name and address associated with the box. We received an adequate level of response to these letters and follow-up inquiries to provide adequate assurance that the FCC vendor master list was accurate and did not contain fraudulent addresses.

6. Survey on Regulatory Fees (Report No. 04-AUD-02-03 issued on December 20, 2004)

The collection of regulatory fees has been an important function of the Commission. In recent years, the commission has collected about \$250 million in regulatory fees annually. The objective of this survey was to examine the regulatory fee process to determine that we can be reasonably assured that all applicable fees are being collected. The scope of the survey was limited to the regulatory fees assessed for mass media licensees.

We found that the FCC has implemented numerous improvements in the regulatory fee collection process. However, we noted that several concerns exist in the management and collection of fees. In FY 2005 OIG will initiate an audit to examine the licensing fee collection process to determine if we can be reasonably assured that all applicable licensing fees are being collected. We will develop the collection of fees and the systems used to develop fees and maintain information on regulated entities into a major audit area in future years,

Audits

to include audits to assess the risks associated with fees, the controls over the fees collection process, the information systems used to administer fees collections and tests of compliance of regulated entities with regulatory fee requirements.

7. Report on Audit of the Federal Communications Commission Prompt Payment Policies and Procedures (Audit Report No. 04-AUD-08-13 issued on March 22, 2005)

The objective of this audit was to determine whether the Commission's bill paying policies and procedures comply with the Prompt Payment Act.

Overall, we determined that the Commission is generally compliant with the Act. However, we identified that miscommunication or confusion between the FCC's Contracts and Purchasing Center and the Travel Operations Group (TOG) resulted in more than 30% of vendor profiles input into the FFS vendor database not being identified as prompt payment eligible and instances occurred where vendors were paid late due to delays in obtaining payment approvals from Contracting Officer's Technical Representatives (COTR). As a result, we recommended that FCC management: 1) perform a comprehensive review of all vendor information to ensure that vendors are properly identified as prompt pay eligible and correct all vendor information that is not properly coded; 2) conduct a thorough review to identify vendors that are owed late payment penalties; and 3) implement policies and procedures to ensure that vendor information and system edit reports are reviewed periodically. We also recommended that management insure that all responsible FCC units are complying with the Commission's accounts processing policies and procedures and investigate areas for improving the time it takes to process, approve, and pay invoices. Commission management agreed with the results of the audit.

8. Report on FY 2004 North American Numbering Plan Administrator Viability Audit (Audit Report No. 04-AUD-08-14 issued on March 24, 2005)

The objective of this audit, requested by Commission management, was to determine the contractor's, NeuStar, compliance with contractual requirements intended to ensure the seamless transfer of the North American Numbering Plan Administrator (NANPA) system to a successor in the event of the contract's termination or expiration of term. We contracted with KPMG, LLP to perform this audit.

Overall, we determined that NeuStar is generally compliant with the requirements of the NANPA contract for the system's transferability. Our audit identified several positive observations and two (2) audit findings that require resolution. We also identified several areas where the FCC can improve upon the effectiveness of its management of the NANPA contract with NeuStar. Contractor management agreed with the results of the audit.

9. Report on FY 2004 Thousands-Block Pooling System Viability Audit (Audit Report No. 04-AUD-08-15 issued on March 24, 2005)

The objective of this audit, requested by Commission management, was to determine the contractor's, NeuStar, compliance with contractual requirements intended to ensure the seamless transfer of the Thousands-Block Pooling system to a successor in the event of the contract's termination or expiration of

Audits

term. We contracted with KPMG, LLP to perform this audit.

Overall, we determined that NeuStar is generally compliant with the requirements of the Thousands-Block Pooling contract for the system's transferability. Our audit identified several positive observations and five (5) audit findings that require resolution. We also identified several areas where the FCC can improve upon the effectiveness of its management of the Thousands-Block Pooling contract with NeuStar. Contractor management agreed with the results of the audit.

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, 2005) we reported seventeen (17) audits and three (3) surveys in progress as well as our on-going contracting services. Of the seventeen (17) open audits, eleven (11) have been completed and two (2) surveys remain in progress.

The following audits and surveys are in process:

1. Audit of the Federal Communications Commission's Fiscal Year 2005 Financial Statement

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 agency OIG's to issue an opinion that the process used for submitting financial data into GFRS has been reclassified correctly from the audited financial statements.

The objective of this audit is to provide an opinion on the FY 2005 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 identified material weaknesses and reportable conditions from the FY 2004 audit. We anticipate issuing an audit report by November 15, 2005 in order to meet accelerated reporting time frames and issuance of an opinion on the closing package by November 17, 2005 (per draft OMB guidance) as required by the Department of the Treasury.

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 business continuity plans. The objective of this audit is to determine the progress of FCC's contingency planning and business continuity program and 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 of the FCC's business continuity program.

3. Audit of Integrated Spectrum Auctions System

The Integrated Spectrum Auctions System (ISAS) is planned to be the

Audits

replacement for the Automated Auctions System (AAS). Automation of spectrum auctions is a critical activity at the FCC. 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 built into ISAS; (3) measure compliance with Federal capital investment regulations; (4) determine that the ISAS project has not experienced any significant cost overruns, unanticipated expenditures, and project delays.

4. Audit of Wireless Network Controls

Wireless networking holds promise for more effective communications. However, if not configured correctly, a number of security problems can occur. The objective of this audit is to determine the extent and effectiveness of security controls over the FCC's wireless network. We will evaluate the efficacy of wireless networking security controls, including a review of wireless security settings, controls over wardriving or drive-by hacking, use of encryption, identification of unauthorized wireless users and wireless intrusion detection.

5. Security of the FCC Network Infrastructure

The objective of this audit will be to examine the Information Technology (IT) environment supporting the FCC's network infrastructure to ensure that the systems are adequately secured consistent with Federal regulations governing the management of critical information systems. The OIG will review 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 this audit will include 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.

6. Audit of Mailroom Safety and Security

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

7. Spyware Survey

Spyware is considered to be a serious IT security issue. This survey will identify and measure spyware on selected FCC workstations and laptops to determine if security and control issues are disclosed.

8. Audit of FCC Contracting and Purchasing Activities

The purpose of the audit is to determine if the Commission properly procured goods and services and disbursed funds in accordance with Federal purchasing requirements and its own procurement policies and procedures. Primary audit objectives will include determining whether the Commission solicited, awarded and administered contracts in accordance with Federal and Commission requirements; insured that expenditures were reasonable and necessary; insured purchases were under contract when warranted; and structured and organized its purchasing and contract funding functions efficiently.

Audits

9. Payroll Management and Financial Controls Audit

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

10. Defense Contract Audit Agency (DCAA) Incurred Cost Audits

The primary objective of an incurred cost audit is to examine a contractor's cost representations and express an opinion as to whether such incurred costs are reasonable; applicable to 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 currently has audits in-process of final indirect cost proposals submitted by Neustar Inc. for FYs 2002 and 2003, and by Titan Systems for FY 2003.

11. Survey of the USF High Cost Program

During fiscal year 2003 we initiated a survey of the USF High Cost program. This program provided \$3.4 billion in FY 2004 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 are performing 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 the High Cost Program is not subject to fraud, waste and abuse.

12. 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.

Audits

| <u>Auditee</u> | <u>Location</u> | <u>Auditor</u> | <u>Status</u> |
|--|---------------------|----------------|---------------|
| Bureau of Indian Affairs (BIA) | Washington, DC | DOI OIG | In process |
| St. Joseph High School | St. Croix, VI | DOI OIG | Draft report |
| St. Mary's Catholic School | Christiansted, VI | DOI OIG | Draft report |
| St. Patrick School | Frederiksted, VI | DOI OIG | Draft report |
| VI Department of Education | St. Thomas, VI | DOI OIG | In process |
| Brevard County School District | Viera, FL | FCC OIG | In process |
| New York City Department of Education | New York, NY | DOE OIG | In process |
| Denver Public Schools | Denver, CO | KPMG LLP | In process |
| Harlandale Independent School District | San Antonio, TX | KPMG LLP | In process |
| Providence Public Schools | Providence, RI | KPMG LLP | In process |
| Sunnyside Unified School District 12 | Tucson, AZ | KPMG LLP | In process |
| Cincinnati City School District | Cincinnati, OH | KPMG LLP | In process |
| Rhode Island Department of Elementary and Secondary Education | Providence, RI | KPMG LLP | In process |
| 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 | In process |
| North East Independent School District | San Antonio, TX | KPMG LLP | In process |
| 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 | In process |
| Fairfax County Public Schools | Fairfax, VA | KPMG LLP | In process |
| Long Branch School District | Long Branch, NJ | KPMG LLP | In process |
| 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 | In process |
| Dallas Independent School District | Dallas, TX | KPMG LLP | In process |
| Department of Information Systems State of Arkansas | Little Rock, AR | KPMG LLP | In process |
| Dorchester County School District #4 | Saint George, SC | KPMG LLP | In process |
| El Monte City Elementary School District | El Monte, CA | KPMG LLP | In process |
| Fontana Unified School District | Fontana, CA | KPMG LLP | In process |
| Gallup-McKinley County School District | Gallup, NM | KPMG LLP | In process |
| San Felipe – Del Rio City ISD | Del Rio, TX | KPMG LLP | In process |
| Stockton City Unified School District | Stockton, CA | KPMG LLP | In process |
| Buchanan County School District | Grundy, VA | KPMG LLP | In process |
| Brownsville Independent School District | Brownsville, TX | KPMG LLP | In process |
| Aldine Independent School District | Houston, TX | KPMG LLP | In process |
| Edinburg Independent School District | Edinburg, TX | KPMG LLP | In process |
| Houston Independent School District | Houston, TX | KPMG LLP | In process |
| Iowa Department of Education | Des Moines, IA | KPMG LLP | In process |
| Garden Grove Unified School District | Garden Grove, CA | KPMG LLP | In process |
| South Carolina Division of the State | Columbia, SC | KPMG LLP | In process |

Audits

Chief Information Officer

| | | | |
|--|--------------------|-------------|------------|
| Pharr – San Juan – Alamo Independent School District | San Juan, TX | KPMG LLP | In process |
| Pomona Unified School District | Pomona, CA | KPMG LLP | In process |
| Florida Information Resource Network | Tallahassee, FL | KPMG LLP | In process |
| Texas Youth Commission | Austin, TX | KPMG LLP | In process |
| Berkeley County School District | Moncks Corner, SC | KPMG LLP | In process |
| Eastern Nebraska Distance Learning Consortium | Fremont, NE | KPMG LLP | In process |
| Dougherty County School District | Albany, GA | KPMG LLP | In process |
| 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 | In process |
| LaJoya Independent School District | LaJoya, TX | KPMG LLP | In process |
| 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 | In process |
| Wilson School District 7 | Phoenix, AZ | KPMG LLP | In process |
| Los Angeles Unified School District | Los Angeles, CA | KPMG LLP | In process |
| Prince Georges County Schools | Upper Marlboro, MD | FCCOIG/USAC | In process |

13. Audit Support for USF 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 (7) field offices and the National Criminal Office. As of the end of the reporting period, we are supporting twenty-two (22) investigations and monitoring an additional fifteen (15) investigations.

Management

Specialized Training and Activities

In our continuing effort to expand the expertise of our audit staff, one auditor attended the International Banking and Money Laundering training at the Federal Law Enforcement Agency in Georgia. Additionally, staff took training from the Inspector General Criminal Investigative Academy and other technical seminars.

Report Availability

The OIG 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.

Visio Information Systems Audits Application

In order to organize our information systems (IS) audits and to ensure we understand the relationships between the major information technology (IT) applications at the FCC, we designed a Microsoft Visio application that visually represents the FCC IT applications and the OIG IS audits that have been conducted on these systems. The objectives of this project were to provide a tool that represents the scope of the FCC IT program, provides for OIG audit continuity and identifies areas where IT audit coverage needs strengthening. The resulting flowchart diagram contains links to prior audit work, risk assessments, and can be updated to include new audit information.

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-five cases were pending from the prior period. Thirty-seven 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 five non-USF and eleven USF related complaints were received during the current reporting period. Over the last six months twenty-two cases, thirteen USF and nine non-USF related, have been closed. A total of thirty-nine cases are still pending, of which thirty-five relate to the USF program. The OIG continues to monitor, coordinate and/or support activities regarding those thirty-five investigations. The investigations pertaining to the pending four non-USF cases are ongoing.

STATISTICS

| | |
|---|----|
| Cases pending as of September 30, 2004..... | 45 |
| New cases..... | 16 |
| Cases closed..... | 22 |
| Cases pending as of March 31, 2005..... | 39 |

Investigations

SIGNIFICANT INVESTIGATIVE CASE SUMMARIES

- The OIG initiated an inquiry into the possible improper destruction and/or removal of information on a Commission computer work station. Through investigation and inquiry, it could not be determined that information was destroyed and/or removed improperly from the workstation in question. It was determined that information thought to have been removed had not in fact been removed or destroyed. Accordingly, no misconduct was found and 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 OIG was unable to develop any information conclusively narrowing the release of the information to sources within the Commission. Also, the OIG was unable to determine to its satisfaction that the substance of what was released was improper and/or that such releases were intentional. Accordingly, it was determined that no further action was warranted and both matters have been closed.
- The OIG initiated an inquiry into allegations of improper conduct by a Commission employee with respect to the processing of a consumer complaint. Specifically, it was alleged the employee had given preferential treatment and improper consideration in the processing of the complaint. The OIG found insufficient evidence to substantiate the allegations and thus no evidence of misconduct, and the matter has been closed.
- Based upon the receipt of a complaint alleging the improper accessing by an employee of inappropriate sites on the Internet, an inquiry was initiated. As a result of inquiry, no evidence of the alleged conduct was found. Accordingly the matter has been closed.
- During this period, inquiries have also been initiated into allegations concerning possible conflicts of interest by an employee in the performance of official duties and possible time and attendance abuse by an employee. Both inquiries are 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.

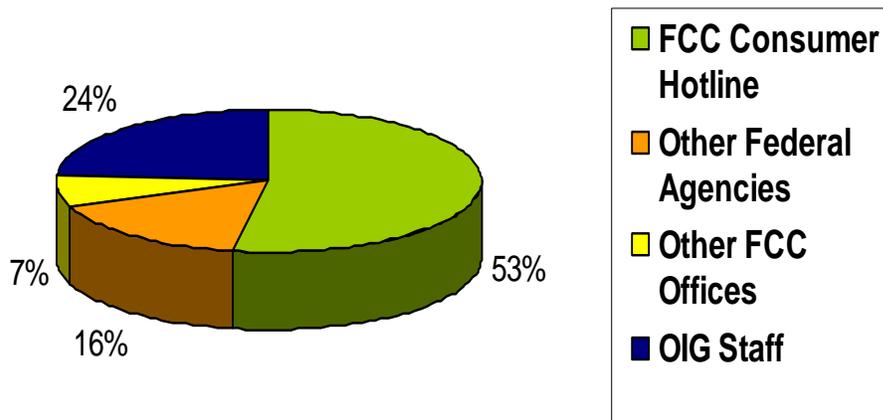
LEGISLATIVE ACTIVITY DURING THIS PERIOD

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. This office has worked with and participated in discussions with other OIGs concerning the implementation of a voluntary peer review process for non-designated OIGs, and will be participating in that process.

IG Hotline

During this reporting period, the OIG Hotline Technician received fifty-nine (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.

Hotline Calls Record October 1, 2004 - March 31, 2005



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.

Federal Communications Commission
Portals II Building
445 12th St., S.W. –Room #2-C762
Washington, D.C. 20554



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 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).

Refer to the Section of the semiannual 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.

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.

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 within the body 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.

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.

Specific Reporting Requirements of the Inspector General Act

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.

We are reporting eight (8) audits as audits for which no management decision has been made by the end of the reporting period. Most of these are audits of the E-rate program (see the section of this report entitled "Oversight of the Universal Service Fund" for more information on this program) and the questioned costs relate to programmatic noncompliance's and instances of waste and abuse. Management has initiated recovery actions for most of these audits; however, the appeals process for recovery of funds under the E-rate program is lengthy and complex. We have stated in Congressional testimony that we are not satisfied with the timelines of resolution for these audits, but we have not developed a recommendation or desired timetable for resolution of these costs.

The remaining questioned costs are from an audit of an equitable adjustment proposal submitted by an FCC contractor. This proposal has not yet been negotiated.

| Audit Report Date | Audit Report Title | Questioned Costs |
|-------------------|---|------------------|
| December 22, 2003 | Report on Audit of the E-rate Program at St. Matthews Lutheran School | \$136, 593 |
| January 7, 2004 | Report on Audit of the E-rate Program at Navajo Preparatory School | 2,084,399 |
| March 24, 2004 | Report on Audit of the E-rate Program at Immaculate. Conception School | 68,846 |
| April 5, 2004 | Report on Audit of the E-rate Program at Children's Storefront School | 491,447 |
| May 19, 2004 | Report on Audit of the E-rate Program at St. Augustine School | 21,600 |
| June 7, 2004 | Report on Audit of the E-rate Program at United Talmudical Academy | 934,300 |
| June 25, 2004 | Report on Audit of NBANC request for Equitable Adjustment Proposal | 30,448 |
| August 12, 2004 | Report on Audit of the E-rate Program at Annunciation Elementary School | 129,003 |
| | Total | \$3,896,636 |

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. | 8 | \$3,896,636 | — |
| B. Which were issued during the reporting period. | — | — | — |
| Subtotals (A+B) | 8 | \$3,896,636 | — |
| C. For which a management decision was made during the reporting period. | 2 | \$13,008 | — |
| (i) Dollar value of disallowed costs | 2 | \$13,008 | — |
| (ii) Dollar value of costs allowed | — | — | — |
| D. For which no management decision has been made by the end of the reporting period. | 8 | \$3,896,636 | — |
| Reports for which no management decision was made within six months of issuance. | 8 | \$3,896,636 | — |

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 during 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 disallowed costs | - | - |
| (ii) Dollar value of costs allowed | - | - |
| 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. | - | - |