

# **Federal Communications Commission**



**Office of the Inspector General  
Semiannual Report to Congress  
April 1, 2005 – September 30, 2005**

**H. Walker Feaster III  
Inspector General**

**OFFICE OF INSPECTOR GENERAL**

**MEMORANDUM**

**DATE:** October 31, 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 September 30, 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

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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. 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 is 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: Steven Rickrode, Assistant Inspector General (AIG) for Audits; Thomas Cline, AIG for Policy and Planning, and Thomas Holleran, AIG for Management. Presently, we have two vacant assistant IG positions. The AIG for Universal Service Fund Oversight has been vacant since September 3, 2005 and the AIG for Investigations/General Counsel position has been vacant since July 2, 2005. We have requested authority from Commission for outside hire authority to fill these positions.

This semiannual report includes the major accomplishments and general activities of the OIG during the period of April 1, 2005 through September 30, 2005.

# Universal Service Fund (USF)

## **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)<sup>1</sup>. 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 semiannual report clearly understood our concerns about this program. We have also used this section of the semiannual 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 semiannual report, we provide an update on our oversight activity during the reporting period. Specifically, we (1) provide an update on OIG oversight activities; (2) provide an update on audits being conducted by other Federal Offices of Inspector General; and (3) summarize significant investigative activity.

## **Update on OIG Oversight Activities**

As we have discussed in previous semiannual 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. In addition, lack of adequate resources has made it difficult for the OIG to provide an adequate level of support to federal law enforcement as they investigate fraudulent activity in the E-rate program. In our last semiannual report, we reported that we had made significant progress addressing access to resources during this semiannual reporting period. We reported that we had added two (2) additional audit staff to the USF team and that we had been advised by then-Chairman Powell’s office that the OIG would receive two (2) additional staff for USF oversight. We also reported that we had been working with USAC since the summer of 2004 to establish a three-way contract under which the OIG and USAC can obtain audit resources to conduct USF audits. Under this contract, we reported that we intended to assess fraud, waste, and abuse at the program level by conducting a statistically valid sample of audits for each of the four USF funding mechanisms and that we intended to use contract resources to support investigations.

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<sup>1</sup> 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)

Unfortunately, we have made no additional progress in either obtaining additional staff or completing the three-way contract with USAC during this reporting period. Shortly before the end of the last semiannual reporting period, arrangements were made to transfer a full-time equivalent position and experienced staff member from the Commission's Office of Managing Director to the OIG. The staff member that was to be transferred has a strong background in the public accounting profession and the conduct of audits in accordance with GAGAS and was to be used to provide oversight of E-rate beneficiary audits being conducted by KPMG LLP under their contract with USAC. Personnel actions were frozen shortly after Chairman Martin assumed his position and no action has been taken to complete this transfer. The Chairman's office has not indicated when this personnel action will be completed or provided any other information regarding additional staff for OIG USF oversight activities.

We have requested appropriated funding and additional staff to provide independent oversight of the USF in every annual budget request since FY 2004. Most recently, we included a request for \$32,207,500 and sixteen (16) full time equivalent staff (FTEs) in our FY 2006 budget request and \$54,295,000 and 16 FTES in our FY 2007 budget request. To date, none of our budget requests have been met.

These budget requests reflect our inability to use the USF itself to provide funding for the cost of oversight. Report language in the Commission's FY 2004 final budget indicated that monies for USF audits should come from the Fund itself. However, neither the Senate nor the House of Representatives have included language to permit the FCC to use USF funds in the draft funding bills to date for FY 2006.

The FCC OIG and USAC completed the contractor selection process for the three-way contract with OIG, USAC and a public accounting firm to conduct USF audits at the end of the last semiannual reporting period in March 2005. In April 2005, the USAC Board of Director's approved the vendor selections made by the FCC OIG and USAC review team and USAC notified the Commission that the selection process had been completed. Shortly after this matter was referred for Commission decision, we were advised that the Office of the Chairman would review and decide the matter. In August 2005, we were advised that the Chairman had approved three-way plan. However, the Commission's General Counsel issued a memorandum dated August 19, 2005 in which they described problems that they perceived with the vendor selection process. After discussing the issues with management, the IG decided to support recompeting the procurement under the guidance of the FCC's Purchasing and Contract Center using Federal Acquisition Regulations. This procurement action has been initiated.

In our last semiannual report, we reported that we are working with USAC and KPMG LLP, under contract to USAC, to conduct the fourth large-scale audit of E-rate beneficiaries. One-hundred beneficiaries are being audited as part of this project. The project was initiated in August 2004 and is expected to be completed during FY 2006. During this reporting period, twelve (12) draft reports from this project were issued to the Schools and Libraries Division of USAC and the Commission's Wireline Competition Bureau for comment. A listing of all USF audits in process is included in the performance audit section of the semiannual report.

On June 14, 2005, the Commission released a Notice of Proposed Rule Making and Further Notice of Proposed Rulemaking ("NPRM") initiating a broad inquiry into the management and administration of the USF, as well as the Commission's oversight of the USF and USF

# Universal Service Fund (USF)

Administrator. The introductory paragraph of the NPRM includes the following statement about its intended purpose:

“In particular, we seek comment on ways to improve the management, administration, and oversight of the USF, including simplifying the process for applying for USF support, speeding the disbursement process, simplifying the billing and collection process, addressing issues relating to the Universal Service Administrative Company (“USAC” or the “Administrator”), and exploring performance measures suitable for assessing and managing the USF programs. In addition, we seek comment on ways to further deter waste, fraud, and abuse through audits of USF beneficiaries or other measures, and on various methods for recovering improperly disbursed funds.”

Consistent with our statutorily mandated responsibilities, the OIG has routinely provided comments on draft Commission rulemaking products, including draft versions of this NPRM. Although we have not chosen to do so in the past, we intend to provide formal comments to this NPRM for two reasons. First, we have several concerns with the scope of the comments requested by the Commission in this matter. Second, we believe that, as a result of our involvement in USF oversight, we have a unique perspective on many of the areas in which the Commission has requested comments. We submitted our comments to the Office of the Secretary subsequent to the semiannual reporting period.

## **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 draft reports prepared by DOI OIG. Although the Commission’s Wireline Competition Bureau (WCB) prepared responses for these three reports, the Commission’s Audit Follow-up Official chose not to endorse those responses. Despite repeated requests to WCB for comments to these reports, no endorsed comments were provided. On August 18, 2005, we issued final versions of the three audit reports without comments from WCB. A listing of the three (3) reports issued during the reporting period, including conclusions and potential fund recoveries identified, is as follows:

<u>Report Date</u>	<u>Beneficiary</u>	<u>Conclusion</u>	<u>Potential Fund Recoveries</u>
08/18/05	St. Joseph’s High School	Not Compliant	\$136,849
08/18/05	St. Mary’s Catholic School	Not Compliant	120,051
08/18/05	St. Patrick Catholic School	Not Compliant	137,571

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

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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. Education OIG held an exit conference with the NYCDOE on September 29, 2005 and we anticipate issuing a final report in FY 2006.

## **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-six (26) investigations and monitoring an additional thirteen (13) investigations.

As we discussed in the section of the semiannual in which we provided an update on OIG oversight activities, we have been working with USAC since the summer of 2004 to establish a three-way contract under which the OIG and USAC can obtain audit resources to conduct USF audits. In addition to providing access to resources to conduct audits, the three-way agreement was intended to provide access to resources necessary to provide support to criminal investigations of E-rate and USF fraud. As a result of delays in establishing the three-way agreement, the FCC OIG has struggled to provide adequate investigative support to federal law enforcement.

Significant accomplishments in investigative support include indictments and negotiated settlements. Following is the major accomplishment during the reporting period.

- In April 2005, a federal grand jury in San Francisco returned a twenty-two (22)-count indictment against six companies and five individuals on charges of fraud, collusion, aiding and abetting, and conspiracy in connection with E-rate projects at schools in seven states--Arkansas, California, Michigan, New York, Pennsylvania, South Carolina, and Wisconsin. The FCC OIG has been actively involved in supporting this investigation for over three years. The six companies and five individuals charged with participating in the schemes to defraud the E-rate program were:
  - Video Network Communications Inc. (VNCI) - Portsmouth, New Hampshire (Counts 1-20);
  - Howe Electric Inc. - Fresno, California (Counts 1, 10, 12, 20);
  - Sema4 Inc. - San Juan Capistrano, California (Count 11);
  - Digital Connect Communications - San Juan Capistrano, California (Counts 21, 22);
  - Expedition Networks, Ltd. - North Hills, California (Counts 21, 22);
  - ADJ Consultants Inc. (ADJ) - Temecula, California (Counts 1, 2, 11, 12, 13, 21, 22);
  - Judy Green - Temecula, California - Former Sales Representative for VNCI, Co-Owner of ADJ (Counts 1-22);
  - Allan Green - Temecula, California - Co-Owner of ADJ (Counts 21, 22);
  - George Marchelos - Saratoga, California - Former Sales Representative for VNCI (Counts 1-20, 22);

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- Steven Newton - San Juan Capistrano, California - Former Vice President at Premio Computer Inc. (Counts 1, 2, 11, 21, 22); and
- Earl Nelson - Sonora, California - Former Branch Manager for Inter-Tel Technologies Inc. (Counts 1, 2, 9, 12).

According to the 22-count indictment, the defendants charged with wire fraud and aiding and abetting in counts 1 through 11 entered into schemes to defraud the FCC and USAC on E-rate projects at 11 school districts in California, Michigan, South Carolina, Arkansas, and Wisconsin from about November 1998 through at least sometime in November 2003. Counts 12 through 20 of the indictment charged certain defendants with participating in, and aiding and abetting, separate conspiracies to rig bids and allocate projects at school districts in California, Michigan, South Carolina, Arkansas, and Wisconsin during the same time period. The defendants charged with Counts 12 through 20 of the indictment and co-conspirators carried out the conspiracy by:

- Discussing prospective bids for the project;
- Agreeing who would be the lead contractor on the project and who would participate on the project as subcontractors to the designated lead contractor;
- Submitting fraudulent and non-competitive bids; and
- Engaging with Judy Green and George Marchelos who took steps to ensure the success of the conspiracy by eliminating and disqualifying bids from non-conspirators and by ensuring that the projects were awarded to the defendants and co-conspirators. In return, some of the defendants and co-conspirators agreed to pay and paid Judy Green and VNCI, a fee and agreed to purchase and purchased and installed VNCI's equipment on the project.

Additionally, Count 21 charges three companies and three individuals with a single conspiracy to rig bids and allocate projects for fifteen (15) E-rate projects at school districts in California, Pennsylvania, New York, South Carolina and Arkansas, beginning in October 2002 through at least January 2004, with Count 22 charging a conspiracy to commit wire and mail fraud in connection with the those same E-rate projects. According to the indictment, the wire fraud counts allege that the charged defendants defrauded the E-rate program by hiding the cost of equipment and fees not covered by the program in with the cost of covered equipment and made misrepresentations to the program administrator that related to the matching funds the schools were suppose to have in order to apply for program funds. The collusion counts allege that on the 1999, 2000, and 2003 E-rate projects the charged defendants allocated and rigged bids for the charged projects.

## **Conclusion**

As a result of our involvement in E-rate beneficiary audits and 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. Through our participation in the fourth large-scale round of E-rate beneficiary audits with USAC, we are continuing to evaluate the state of the E-rate program and identify opportunities for programmatic improvements. However, a lack of adequate resources continues to impede our ability to provide effective, independent oversight of the E-rate program and the other programs that comprise the Universal Service Fund.

# Audits

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

**1. Audit of the Federal Communications Commission Fiscal Year 2005 Consolidated Financial Statements**

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, is performing the audit of FCC's FY 2005 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*.

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

**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. Report of Defense Contract Audit Agency (DCAA) on Neustar, Inc. FY 2002 and 2003 Incurred Cost Audit (Audit Report No. 6341-2002W10100007 and 6341-2003W10100020 issued on July 1, 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 2002 and 2003 incurred costs claimed under FCC contract no. CON01000016. These rates apply primarily to flexibly-priced contracts. DCAA accepted NeuStar's indirect rates for January 1, 2002 through December 31, 2003 as adjusted and provisionally accepted its direct costs for the years examined.

# Audits

**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.**

**1. Report on Spyware Survey (Audit Report No. 05-AUD-02-02 issued on May 12, 2005)**

This survey served to assess the degree of disruption spyware causes within Commission and provide recommendations if necessary to eliminate and prevent future spyware infections. The survey disclosed two positive observations of the Computer Security Office's (CSO) response to spyware. The report also identified one high risk finding with two recommendations for improvement.

FCC management concurred with one recommendation, partially concurred with the second, and outlined their planned corrective actions.

**2. Audit of the Integrated Spectrum Auctions System (ISAS) (Report No. 04-AUD-03-11 issued on May 27, 2005)**

The Integrated Spectrum Auctions System (ISAS) is planned to be the replacement for the Automated Auctions System (AAS). Automation of spectrum auctions is a critical activity at the FCC. The objectives of this review were 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. OIG initiated this audit during the fourth quarter of FY 2004 and issued the final audit report on May 27, 2005.

Overall, OIG determined that the ISAS project is compliant with the requirements outlined in the FCC's system development lifecycle (SDLC) methodology. However, OIG identified two conditions and reported that the ISAS project did not comply with the budget and cost provisions of the Clinger-Cohen and OMB Circular A-130.

FCC management concurred with the two findings identified in the audit report.

**3. Audit of Wireless Network Controls (Report No. 04-AUD-10-19 issued on June 3, 2005)**

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 was to determine the extent and adequacy of security controls over wireless networks operated and maintained by and/or for the FCC. The scope of this audit included only wireless data networks and specifically excluded voice communications.

The OIG identified a number of positive security controls in the FCC's wireless data infrastructure. However, the OIG identified four medium risk and four low risk findings.

FCC management responded to the eight audit findings by stating that five had already been closed and concurred with two and partially concurred with one of the remaining findings.

# Audits

## **4. Pinnacle Test Survey Memorandum (Report No. 05-AUD-08-08, dated September 27, 2005)**

In the post 9-11 environment, disaster recovery planning and business continuity are critical. In 2002, the Federal Communications Commission (FCC or Commission) developed a Continuity of Operations Plan (COOP). To measure effectiveness, a COOP must be tested. Because of the criticality of this function, the significant financial and work hour investment made to test a COOP, and its inclusion as part of the Commission's Homeland Security strategic goal, the OIG initiated this survey on the Pinnacle continuity of operations test on June 23, 2005, and reported the results.

The objective of this survey was to observe the Pinnacle test, assess its adequacy, and report upon its progress. To do this, the OIG participated in the Pinnacle test as an observer. In addition, the OIG observed Pinnacle planning meetings, interviewed key personnel, and reviewed relevant documentation. The scope of this survey was limited to an evaluation of the Pinnacle exercise at the FCC. Specific recommendations, as warranted, will be developed to address any internal control deficiencies identified during the conduct of fieldwork.

Based on the survey results, OIG concluded that additional audit work beyond that which is already in progress is not warranted relating to COOP activities. During the past two years, OIG has issued four (4) reports on COOP related activities and will follow-up on the findings from those audits and continue to monitor the FCC's COOP activities.

## **5. Report on Audit of the E-rate Program at St. Mary's Catholic School, St. Croix, U.S. Virgin Islands (Audit Report No. R-GR-FCC-0007-2003 dated August 18, 2005)**

This E-rate beneficiary audit was conducted as part of our oversight of the USF. St. Mary's Catholic School is a church-based parishioner-supported school that serves approximately 200 students in pre-kindergarten through eighth grade. This audit was performed by the Department of Interior Office of Inspector General (DOI OIG) under a Memorandum of Understanding (MOU) between USAC, DOI OIG and our office. The objectives of the audit were to determine if the beneficiary complied with the rules and regulations of the E-rate program and to identify program areas that may need improvement.

The auditors concluded that the beneficiary did not comply with the requirements of the program for funding year 2000. The audit resulted in four findings and \$120,051 identified as potential fund recoveries. The findings of the audit were as follows:

1. The technology plan was not adequately prepared.
2. Funds for the school's portion of the costs were not budgeted or approved.
3. The competitive awards process was not documented.
4. Record keeping was inadequate.

We recommended that the Wireline Competition Bureau direct USAC recover the amount of \$120,051 from the beneficiary.

# Audits

## **6. Report on Audit of the E-rate Program at St. Joseph High School, St. Croix, U.S. Virgin Islands (Audit Report No. R-GR-FCC-0008-2003 dated August 18, 2005)**

This E-rate beneficiary audit was conducted as part of our oversight of the USF. St. Joseph High School is a church-based parishioner-supported school that serves approximately 96 students in ninth through twelfth grade. This audit was performed by the Department of Interior Office of Inspector General (DOI OIG) under a Memorandum of Understanding (MOU) between USAC, DOI OIG and our office. The objectives of the audit were to determine if the beneficiary complied with the rules and regulations of the E-rate program and to identify program areas that may need improvement.

The auditors concluded that the beneficiary did not comply with the requirements of the program for funding year 2000. The audit resulted in five findings and \$136,849 identified as potential fund recoveries. The findings of the audit were as follows:

1. The technology plan was not adequately prepared.
2. Funds for the school's portion of the costs were not budgeted or approved.
3. The competitive awards process was not documented.
4. Contracted services were not completed.
5. Record keeping was inadequate.

We recommended that the Wireline Competition Bureau direct USAC recover the amount of \$136,849 from the beneficiary.

## **7. Report on Audit of the E-rate Program at St. Patrick Catholic School, St. Croix, U.S. Virgin Islands (Audit Report No. R-GR-FCC-0009-2003 dated August 18, 2005)**

This E-rate beneficiary audit was conducted as part of our oversight of the USF. St. Patrick Catholic School is a church-based parishioner-supported school that serves approximately 250 students in pre-kindergarten through eighth grade. This audit was performed by the Department of Interior Office of Inspector General (DOI OIG) under a Memorandum of Understanding (MOU) between USAC, DOI OIG and our office. The objectives of the audit were to determine if the beneficiary complied with the rules and regulations of the E-rate program and to identify program areas that may need improvement.

The auditors concluded that the beneficiary did not comply with the requirements of the program for funding year 2000. The audit resulted in five findings and \$137,571 identified as potential fund recoveries. The findings of the audit were as follows:

1. The technology plan was not adequately prepared.
2. Funds for the school's portion of the costs were not budgeted or approved.
3. The competitive awards process was not documented.
4. Contracted services were not completed.
5. Record keeping was inadequate.

We recommended that the Wireline Competition Bureau direct USAC recover the amount of \$137,571 from the beneficiary.

# Audits

## **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 nine audits and two surveys in progress as well as our on-going contracting services and numerous E-rate audits. Of the nine open audits, three have been completed and one survey remains 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 OIGs 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 18, 2005 as required by the Department of the Treasury.

### **2. Audit of Loan Portfolio and Related Activity**

The Commission has a loan portfolio comprised of approximately 2,000 installment payment plans. In recent years, the portfolio received increased scrutiny due to its materiality on the FCC's financial statements. To mitigate concerns regarding past contractor operations and to prepare auditable balances, the Commission contracted with a public accounting firm to review and recalculate loan balances since inception. Although this action resulted in significant changes to internal control, loan balances, and source documentation, 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 FY 2000, the Financial Operations office reorganized and reassigned responsibilities impacting the loan environment.

The primary objective of the audit is to assess the transition of the portfolio from FCC to a loan service provider environment. Fieldwork on this audit was initiated in August 2001. We anticipate completion of this audit in the first quarter of FY 2006. This audit has been delayed by the FCC's inability to transition the loan activities to Colson Services, which was only recently completed.

# Audits

## **3. FY 2005 FISMA Evaluation**

The Federal Information System Management Act (FISMA) focuses on the program management, implementation, and evaluation aspects of agency security systems. FISMA replaced the Government Information Security Reform Act (GISRA) which expired in November 2002. A key provision of FISMA requires that Inspectors General perform an annual independent evaluation of Agency information security programs.

The objective of this independent evaluation is 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 FISMA assessment tool to evaluate the effectiveness of the Commission's information security program and assess risk for each component of the program. The information report requirement by the Office of Management and Budget (OMB) was issued August 31, 2005. We anticipate that a final audit report will be issued in the first quarter of FY 2006.

## **4. Audits of the Physical Security of Commission Facilities**

In the post 9-11 environment, physical security to protect FCC employees, contractors, visitors, and assets is critical. The OIG has previously performed a number of audits on physical security. The objective of this audit is to determine the progress on correcting prior audit findings and evaluate the FCC's physical security program. The focus of this review will be the Commission's Headquarters facilities at Portals I and II in Washington, DC. This audit will provide the Chairman with an independent and comprehensive analysis on the current posture of the FCC's physical security program at Headquarters. The survey will assess and report on its progress and its viability. Specific recommendations, as warranted, will be developed to address any deficiencies identified during the conduct of audit fieldwork. We held an entrance conference on this audit on September 20, 2005.

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

## **5. 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. The audit will assess and report on the progress and viability of the program. Specific recommendations, as warranted, will be developed to address any deficiencies identified during the conduct of audit fieldwork. This audit was initiated in September 2003. We completed the first phase of this audit, which was a review of the FCC's Disaster Recovery Plan (DRP), and issued a survey report on July 27, 2004.

# Audits

We are conducting the second phase of this audit, which is a review of the Continuity of Operations Plans (COOP). We issued our draft report on September 22, 2005 and anticipate issuing a final report in the first quarter of FY 2006.

## **6. 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. We issued the draft report for this audit on September 26, 2005 and anticipate issuing a final report audit during the first quarter of FY 2006.

## **7. Integrated Spectrum Auctions System Review**

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

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

## **8. Audit of Regulatory Fee Collections**

Collection of fees is a critical function of the FCC. In recent years, the commission has collected over \$200,000,000 in fees annually. Because of the criticality of the fee collection function and significant financial investment in the systems to automate this function, the OIG determined that audit work was warranted. This audit will examine the regulatory fee collection process to determine if the Commission can be reasonably assured that all applicable regulatory fees are being collected. The OIG will review both manual and automated controls over the regulatory fee collection process. We will also review a statistical sample of regulated entities to determine if the Commission is collecting all fees due. Audit planning has been initiated for this audit and we anticipate issuing our report during the fourth quarter of FY 2006.

# Audits

## **9. Commission Registration System (CORES) Application Audit**

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

## **10. Continuity of Operations (COOP) Audits for Related Entities**

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 these audits is to determine the progress of contingency planning and business continuity program for FCC related entities and determine if they have a useable and viable program. These audits will provide the Chairman with an independent and comprehensive analysis on the current posture of the business continuity program for all entities included as part of the FCC's financial statements. In FY 2005, we initiated an audit of the COOP for the Universal Service Administrative Company (USAC). We anticipate issuing a final report on this audit in the first quarter of FY 2006.

## **11. 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. We issued our draft report on this audit on July 29, 2005 and anticipate issuing our final report during the first quarter of FY 2006.

## **12. 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. We issued our draft report on this audit on September 28, 2005 and anticipate issuing our final report during the first quarter of FY 2006.

# Audits

## **13. Telecommunications Relay Services Fund (TRS) Provider Analysis & Risk Assessment**

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

This is the first in an expected series of projects that will culminate in a defined audit process for providing the Commission and OIG with an independent and comprehensive examination and assessment of the Federal Communication Commission's (FCC) TRS administration and TRS provider compliance with 47 CFR Part 64.601 through 64.605 and the conduct of such audits. Objectives include analyzing FCC TRS oversight requirements, the Commission's program management functions and applications over the TRS administrator; and the operations of the TRS administrator. We anticipate issuing our report on the above initial phase during the 3<sup>rd</sup> quarter of FY 2006.

## **14. 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.

At the contract manager's request, the OIG had DCAA include FCC's \$7,286,411 contract no. CON01000008 in its incurred cost audit of DynCorp IS and IT segments (a Computer Sciences Corporation company) FY 2004 incurred costs. DCAA anticipates completing and issuing their report during the first quarter of FY 2006.

At the contract manager's request, the OIG had DCAA include FCC's time and material contract no.'s CON01000008 and CON01000009 in its incurred cost audit of Titan Corporation, Civil Government Services Group, FY 2003 incurred costs. DCAA anticipates completing and issuing their report during the first quarter of FY 2006.

## **15. Survey on High Cost Program**

The USF High Cost 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 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 the High Cost Program is not subject to fraud, waste and abuse. Fieldwork on this survey was initiated during the first quarter of FY 2003. We anticipate issuing a survey report during FY 2006.

# Audits

## 16. Audits of E-rate Beneficiaries

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

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

# Audits

<u>Auditee</u>	<u>Location</u>	<u>Auditor</u>	<u>Status</u>
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 Chief Information Officer	Columbia, SC	KPMG LLP	In process
Pharr – San Juan – Alamo Independent School District	San Juan, TX	KPMG LLP	In process
Pomona Unified School District	Pomona, CA	KPMG LLP	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
Miami-Dade County Public Schools	Miami, FL	KPMG LLP	In process
American Samoa SEA	Pago Pago, AS	KPMG LLP	In process
Guam Department of Education	Hagatna, GU	KPMG LLP	In process
Birmingham City School District	Birmingham, AL	KPMG LLP	In process
Georgia State Department of Education	Atlanta, GA	KPMG LLP	In process
Orange County School District	Orlando, FL	KPMG LLP	In process
Jackson Public School District	Jackson, MS	KPMG LLP	In process
Richland County School District	Columbia, SC	KPMG LLP	In process
Bassett Unified School District	La Puente, CA	KPMG LLP	In process
Leake & Watts Services, Inc. Corporation for Network Education Initiative in California	Yonkers, NY	KPMG LLP	In process
Desert Sands Unified School District	Cypress, CA	KPMG LLP	In process
Garvey Elementary School District	La Quinta, CA	KPMG LLP	In process
	Rosemead, CA	KPMG LLP	In process

# Audits

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

# Audits

## **17. 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 field offices and the National Criminal Office. As of the end of the reporting period, we are supporting twenty-six (26) investigations and monitoring an additional thirteen (13) investigations.

# Management

## **Specialized Training and Activities**

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

# 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

Thirty-nine (39) cases were pending from the prior period. Thirty-five (35) 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 (11) non-USF and six USF related complaints were received during the current reporting period. Over the last six months eight cases, two USF and six non-USF related, have been closed. A total of forty-eight (48) cases are still pending, of which thirty-six (36) relate to the USF program. The OIG continues to monitor, coordinate and/or support activities regarding those 36 investigations. The investigations pertaining to the pending twelve (12) non-USF cases are ongoing.

## STATISTICS

Cases pending as of March 31, 2005 .....	39
New cases.....	17
Cases closed.....	8
Cases pending as of September 30, 2005.....	48

# Investigations

## **SIGNIFICANT INVESTIGATIVE CASE SUMMARIES**

- The OIG initiated an inquiry into allegations of improper conduct by a Commission employee with respect to the 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.
- The OIG initiated an inquiry into allegations of improper conduct by a Commission employee with respect to the possession of private information relating to a group of Commission employees. Specifically, it was alleged that the FCC employee had violated certain FCC Manual and United States tenets with reference to the Privacy Act. Inquiries in relation to this issue are currently pending.
- During this period, the OIG initiated an inquiry into recent allegations concerning FCC employees regarding procurement fraud. Specifically, it was alleged that the employee directed contracts and purchases to related parties. Inquiries in relation to this issue 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 Office 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.

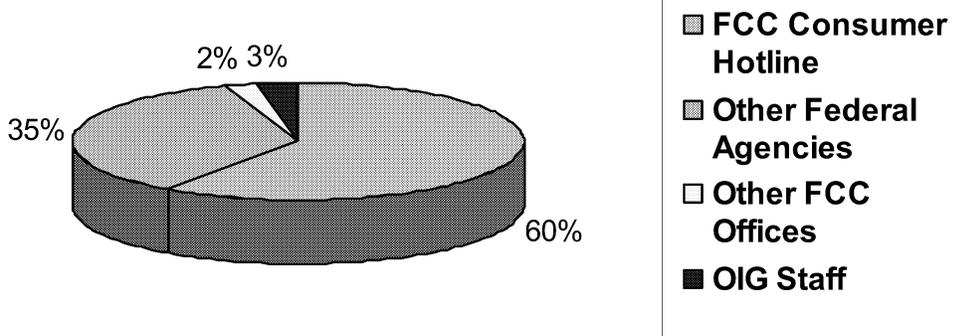
The Inspector General participated in a hearing before the Subcommittee on Oversight and Investigations of the Committee on Energy and Commerce related to IG plans to guard against waste, fraud and abuse in agency post-Katrina relief plans. The panel consisted of IGs from several agencies. We discussed our plans to provide oversight of the FCC's use of USF funds to rebuild telecommunications systems, information systems at schools and libraries, and to provide persons in the affected areas with free cellular phones and air time.

Additionally, we provided comments on the requirement established under Section 522 of the 2005 Appropriation Act to establish a Chief Privacy Officer (CPO) and the requirement for the IG to hire independent auditors to report to Congress on the CPO's activities to the Presidential Council on Integrity and Efficiency (PCIE). We also reviewed Homeland Security Presidential Directive 12, *Policy for a Common Identification Standard for Federal Employees and Contractors*, in response to a request from the Executive Council for Integrity and Efficiency, but we did not provide comments.

# OIG Hotline

During this reporting period, the OIG Hotline Technician received numerous hotline calls to the published hotline numbers of (202) 418-0473 and 1-888-863-2244 (toll free). The OIG Hotline continues to be a vehicle by which Commission employees and parties external to the FCC can contact the OIG to speak with a trained Hotline Technician. Callers who have general questions or concerns not specifically related to the missions or functions of the OIG office are referred to the FCC 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. During the reporting period, we received one hundred and thirty two (132) hotline calls. The majority of these were forwarded to the FCC NCC (79 calls) and the second major portion of calls were referred to other federal agencies, primarily the Federal Trade Commission (46 calls).

## Hotline Calls Record April 1, 2005 - September 30, 2005



# OIG Hotline

## Report Fraud, Waste or Abuse to:

Office of the Inspector General  
Federal Communications Commission

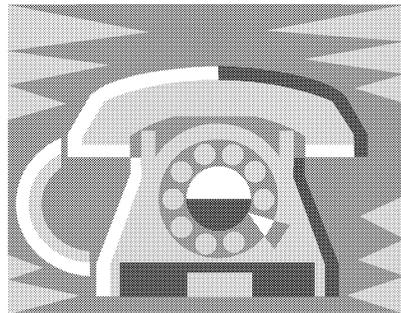
### CALL

Hotline: (202) 418-0473

or

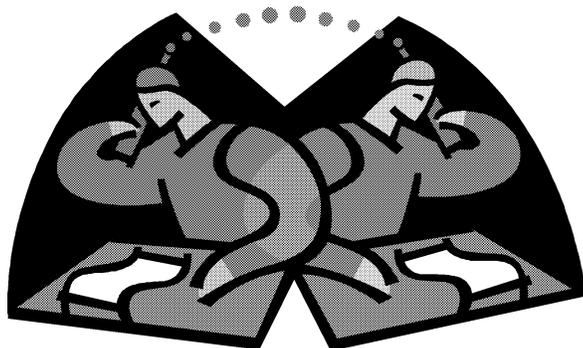
(888) 863-2244

[www.fcc.gov/oig](http://www.fcc.gov/oig)



## You are always welcome to write or visit.

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



## Specific Reporting Requirements of the Inspector General Act

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

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

*Refer to the Section of the semiannual report entitled "Universal Service Fund" on pages 3 through 7.*

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 7.*

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.

*Refer to the Section of the semiannual report entitled "Universal Service Fund" on pages 3 through 7. No non-USF cases have been referred to the Department of Justice during this reporting period.*

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

*No report was made to the Chairman of the FCC under section (6)(b)(2) during 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 in parts II and III of this report.*

7. A summary of each particularly significant report.

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

## Specific Reporting Requirements of the Inspector General Act

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

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

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

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

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

*One report was issued before the commencement of the reporting period for which no management decision has been made. The questioned costs are from an audit of an equitable adjustment proposal submitted by an FCC contractor. The proposal has not yet been negotiated.*

<u>Report Date</u>	<u>Audit Report Title</u>	<u>Questioned Costs</u>
June 25, 2004	Report on Audit of NBANC Request for Equitable Adjustment Proposal	\$30,448

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

*No management decisions fall within this category.*

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

*No management decisions fall within this category.*

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

*No reports with this information have been issued in the reporting period.*

## OIG Reports With Questioned Costs

Table I. Inspector General Reports With Questioned Costs	Number of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	1	\$ 30,448	-
B. Which were issued during the reporting period.	3	394,471	-
C. For which a management decision was made during the reporting period.	-	-	-
(i) Dollar value of disallowed costs	-	-	-
(ii) Dollar value of costs not disallowed	-	-	-
D. For which no management decision has been made by the end of the reporting period.	4	\$ 424,919	-
Reports for which no management decision was made within six months of issuance.	1	\$ 30,448	-

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

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