



Federal Communications Commission  
Washington

**OFFICE OF INSPECTOR GENERAL**

**MEMORANDUM**

**DATE:** April 26, 2002

**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, 2002. 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."

Also, during the reporting period, the Office continued in its efforts related to the audit of the Commission's financial statement, its information systems, its contractors, and the welfare and safety of its employees.

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

# Table of Contents

Introduction . . . . .	1
Oversight of the Universal Service Fund . . . . .	2
Audits . . . . .	10
Financial Statement Audit . . . . .	10
Performance Audits . . . . .	11
Work-in-Process . . . . .	17
Specific Reporting Requirements of the Inspector General Act . . . . .	20
Table I. OIG Audit Reports With Questioned Costs. . . . .	22
Table II. OIG Audit Reports With Recommendations That Funds Be Put To Better Use . . . . .	23
Investigations . . . . .	24
Legislation . . . . .	27
IG Hotline . . . . .	28

# Introduction

The Federal Communications Commission (FCC) is an independent regulatory agency exercising authority delegated to it by Congress under the Communications Act of 1934 as amended by the Telecommunications Act of 1996. The FCC is charged with regulating interstate and international communications by radio, television, wire, satellite and cable. The FCC's jurisdiction covers the fifty states, the District of Columbia, and U.S. possessions. The mandate of the FCC under the Communications Act is to make available to all people of the United States a rapid, efficient, nationwide, and worldwide wire and radio communication service. 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; and
- ◇ Enforcement.

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

Michael Powell was designated as Chairman on January 22, 2001. Kathleen Q. Abernathy, Michael J. Copps, and Kevin J. Martin serve as Commissioners. One seat is vacant. 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 Street, S. W., Washington, D.C. 20554.

The Office of Inspector General (OIG) has dedicated itself to assisting the Commission as it continues to improve its efficiency and effectiveness. The Inspector General (IG) H. Walker Feaster III, reports directly to the Chairman. The OIG staff consists of ten professionals and a student intern. Principal assistants to the IG are: Thomas D. Bennett, Assistant Inspector General (AIG) for Audits, Charles J. Willoughby, AIG for Investigations; and Thomas M. Holleran, AIG for Policy & Planning. Mr. Willoughby also serves as counsel.

This semiannual report includes the major accomplishments and general activities of the OIG during the period October 1, 2001 through March 31, 2002.

## Oversight of the Universal Service Fund (USF)

During this semi-annual reporting period, the Office of Inspector General has devoted considerable resources to oversight of the Universal Service Fund (USF). Our efforts have included review of the fund as part of our audit of the Commission's fiscal year 2001 financial statement, audit support to several ongoing criminal investigations related to possible program fraud, and the design and implementation of a comprehensive oversight program. I am pleased to report that we have made a great deal of progress. For example, we are conducting audits of 26 program beneficiaries with OIG staff and auditors detailed to OIG from other Commission bureaus. However, although we have made progress in ensuring adequate oversight of the USF, obstacles to the successful implementation of our oversight program remain.

### **Background Information**

A regulatory "universal service fund" was established in 1983 to help keep telephone rates reasonable in high cost areas. Prior to 1983, universal service was accomplished through AT&T's internal rate structure. Until 1996, the regulatory fund provided support to incumbent local exchange carriers that provided service to low income consumers or areas where the cost of providing service was high. In the Telecommunications Act of 1996, Congress provided for a federal universal service program to support service for rural health care providers and schools and libraries, as well as low income consumers and high cost communities. Pursuant to the Telecommunications Act of 1996, the statutorily based USF is funded through contributions from all telecommunications companies in the United States, including local and long distance phone companies, wireless and paging companies and payphone providers. Although not required to do so by the government, many carriers choose to pass the cost of their contribution onto their customers in the form of billed charges, frequently referring to the charges as the "Federal Universal Service Fee" or the "Universal Connectivity Fee." The Universal Service Administrative Company (USAC) administers the USF under the direction of the FCC.

The OIG first significantly looked at the USF as part of our audit of the Commission's fiscal year 1999 financial statement when the USF was determined to be part of the FCC's reporting entity for financial statement reporting for the first time. During that audit, we questioned the Commission regarding the nature of the USF and, specifically, whether it was subject to the statutory and regulatory requirements for federal funds. Starting with that inquiry, we have examined

## Oversight of the Universal Service Fund (USF)

other facets of the program and have continued to expand our role in program oversight. Throughout this process, we have been mindful of our authority and our responsibilities under the Inspector General Act. From the beginning, it has been our position that the universal services program is a federal program and that oversight of the program is the responsibility of the Office of Inspector General.

Due to the materiality and audit risks of the program, we have focused our interest on the USF mechanism for funding telecommunications and advanced services for schools and libraries, also known as the “Schools and Libraries Program” or the “E-Rate” program. The Schools and Libraries Program was created on May 7, 1997 when the Commission adopted a Universal Service Order implementing the Telecommunications Act of 1996. The Order was designed to ensure that all eligible schools and libraries have affordable access to modern communications and information services. Up to \$2.25 billion annually is available to provide eligible schools and libraries with discounts for authorized services. Eligible schools and libraries may receive discounts on eligible telecommunication services ranging from 20 percent to 90 percent, depending on economic need and location (urban or rural). The level of discount is based upon the percentage of students eligible for the National School Lunch Program or other federally approved alternative mechanisms contained in the Improving America’s Schools Act. Libraries use the discount percentage of the school district in which they are located. Discounts can be applied to commercially available telecommunications services, Internet access, and internal connections. Eligible services range from basic local and long distance telephone services and Internet access services to the acquisition and installation of equipment for providing internal connections to telecommunications and information services. Over 30,000 applications were submitted during each of the program’s first three program years (1998 – 2000) from schools and libraries in each of the 50 states, the District of Columbia, and most territories.

### **Concerns about the Schools and Libraries Program**

The size and scope of the Schools and Libraries Program would by itself make it a major program for the FCC and a significant area for risk of fraud, waste, and abuse. This, coupled with the results of various oversight activities performed to date, gives the OIG a great deal of concern about this program. Although program oversight is clearly the responsibility of the Office of Inspector General,

## Oversight of the Universal Service Fund (USF)

much of the oversight activity to date has been performed under the direction of USAC as part of the oversight program they have established pursuant to FCC direction.

- ◇ In calendar year 2000, USAC contracted with a public accounting firm to conduct audits of eighteen (18) beneficiaries of funding from the first year of the Schools and Libraries program. Their audit resulted in a major investigation by the Federal Bureau of Investigation (FBI) and OIG representatives. The matter has been referred as a civil false claims suit to the Department of Justice, where it is under consideration. Additionally, the audit report disclosed weaknesses (ranging from regulatory non-compliances to computation errors) at 14 locations of the 17 beneficiaries reported on and \$8 million in inappropriate funding disbursements.
- ◇ Building on the work done last year, USAC has contracted to conduct audits at twenty-two (22) beneficiaries this calendar year. The results of this audit are currently under review by USAC and the Wireline Competition Bureau (WCB) of the FCC. The preliminary results indicate there may be findings at nearly all locations including several millions of dollars in inappropriate disbursements and unsupported costs.

The oversight program established by USAC has provided useful information regarding beneficiary compliance with program rules and requirements. In addition to the audit conducted last year that resulted in a criminal investigation at one beneficiary, USAC has referred numerous allegations of fraud by program recipients and service providers to our office. The work performed to date provides information regarding compliance by those recipients where audits are conducted. However, it is our opinion that the scope of USAC's program, conducting a very small number of audits in a program with in excess of 30,000 applicants per year, does not provide the Commission with adequate insight on program-level compliance by program beneficiaries. Therefore, we have concluded that additional audit work is required to provide a reasonable level of assurance that beneficiaries are complying with program rules and that program controls are adequate to prevent and detect fraud, waste, and abuse. Based on that conclusion, we have undertaken several actions to improve the oversight of the program. We have worked with USAC, WCB, OGC and other offices in the Commission to ensure our approach is fully coordinated and logical.

## Oversight of the Universal Service Fund (USF)

During fiscal year 2001, we worked with Commission representatives as well as with the Defense Contract Audit Agency (DCAA) and USAC, to design a nationwide audit program that will provide the Commission with programmatic insight into the compliance with rules and requirements on the part of program beneficiaries and vendors. We have designed our program around two corollary and complimentary efforts. First, we will conduct reviews on a statistical sample of beneficiaries large enough to allow us to derive conclusions regarding beneficiary compliance at the program level. Second, we have established a process for vigorously investigating allegations of fraud, waste, and abuse in the program.

Due to obstacles that will be addressed later in this section, we have as yet been unable to implement a systematic program of oversight. To counteract the impact of these obstacles, we have undertaken several action plans.

- ◇ We requested and obtained auditors from the WCB on a temporary detail to conduct beneficiary audits. These audits of 26 program beneficiaries are still in process, but preliminary results indicate potential irregularities at many locations that may result in potential fund recoveries and further referrals for investigation.
- ◇ In addition to the reviews and investigations in which we are currently involved, we have had discussions with other offices in the IG community and federal audit agencies to explore areas where we can coordinate audit effort and work together.
  - The Department of Education OIG has several audits of grant recipients that are also e-rate beneficiaries (Puerto Rico, Virgin Islands) and we believe that the Schools and Libraries Program overlaps with the Education programs and makes use of the same management control systems. We are coordinating with the Education OIG to determine where we can work together to provide effective oversight of federal funds. Additionally, they have indicated that an intergovernmental audit working group (formed by GAO and including representatives from federal, state, and local offices of inspector general) may be interested in performing e-rate audit work.
  - We are also coordinating with the Department of Interior OIG for them to provide oversight on a reimbursable basis of e-rate funding beneficiaries at

## Oversight of the Universal Service Fund (USF)

the Bureau of Indian Affairs and Indian reservation schools.

To implement the investigative component of our plan, we have established a formal working relationship with the Governmental Fraud Unit of the Federal Bureau of Investigation (FBI). We have established a process for forwarding allegations of fraudulent activities to a dedicated program manager at FBI Headquarters who reviews the allegations and forwards them to the appropriate field office for investigation. We have assured the FBI that our office will provide any audit expertise needed to support these investigations.

- ◇ At this time, we are tracking 22 investigations being performed by the FBI and several local law enforcement agencies and we are providing direct audit support to several of these investigations using OIG staff and public auditors under contract.

### **Obstacles to Implementation**

Our nation-wide oversight program will allow us to determine, with a reasonable level of assurance, that beneficiaries are complying with program rules and that controls are adequate to prevent and detect fraud, waste, and abuse. However, although we have made significant progress, many obstacles to full implementation of our oversight program remain. These obstacles include (1) disagreement regarding the nature of the fund and (2) lack of resources to provide effective oversight.

Although it is generally agreed and widely recognized that the universal service program is a federal program, there is considerably less agreement that USF is “public money” or federal funds. The USF is included in the United States Budget as a special fund but it is maintained in accounts outside the Treasury and is administered by a not-for profit corporation under the direction of the FCC.

Confusion and disagreement regarding the nature of the USF has profoundly affected program oversight. Our first indication that this issue would impede our ability to perform program oversight came as a result of an investigation that was referred to our office in August 2000. In January 2001, we presented a \$3.8 million civil false claims matter to the Department of Justice (Justice) related to this investigation. Our presentation of this matter was the result of a six-month investigation jointly conducted with the FBI. The case is on hold pending resolution of the federal funds issue.

## Oversight of the Universal Service Fund (USF)

Frequently in our discussions with the FBI, both at FBI headquarters and at field offices, the issue of the nature of the USF is discussed. Although we have been recently assured that the Governmental Fraud Unit is satisfied that this program is within their jurisdiction, discussion of the nature of the USF is a recurring theme. It has been our impression that federal law enforcement is going to be reluctant to dedicate resources to this program until this issue is resolved. The final position taken by Justice on the nature of the USF will have far reaching consequences to other investigations and, in fact, may jeopardize our ability to work with federal law enforcement to investigate fraud in this program.

In addition to complicating our relationship with federal law enforcement, this issue has made it difficult to coordinate interagency and intergovernmental audit coverage for areas of mutual interest.

- ◇ We worked with the DCAA to develop our audit program and expected DCAA to perform audits on a reimbursable basis. In fact, the scope of our discussions included field offices expected to participate in the program, processes for managing reports and work products, and arrangements for a training class to have been held prior to the kick-off of the program. DCAA declined to participate in the audit program at the last minute, citing resource issues and a need to “re-focus” on their mission. We believe that concerns about the nature of the USF may have also contributed to their decision.
- ◇ Within the past several months, we have met with representatives from the Department of the Interior (DOI) Office of Inspector General (OIG) and with representatives from the OIG at the Education Department (Education). Both of these organizations have expressed an interest in performing audits on a reimbursable basis and/or coordinating audit work in areas of mutual interest. However, both the DOI and Education have expressed concern about the nature of the USF.

In addition to obstacles related to the nature of the USF, we have been impeded by difficulties in obtaining access to the resources necessary to establish an effective oversight program. Most of our difficulties stem from the fact that the Commission does not have the statutory authority to use the USF to fund the cost of Commission operations, including program oversight. Any option for obtaining resources using USF funding creates an appearance of the Commission

## Oversight of the Universal Service Fund (USF)

augmenting its appropriation. Although we believe that it is appropriate to utilize the Universal Service Fund to fund our oversight program, we are proceeding carefully and are working closely with the Commission's Office of General Counsel (OGC) to ensure that any action taken will be in accordance with federal appropriations law.

- ◇ We have initiated discussions with USAC to obtain additional, outside audit resources under a contract managed by the OIG and paid from the USF. We are working with representatives from the Commission's Office of Managing Director (OMD) and OGC to construct a contract that will meet our needs without violating federal appropriations law or creating the appearance that we are augmenting the Commission's appropriation.
- ◇ We are meeting with other federal Offices of Inspector General to discuss the availability of audit resources to perform beneficiary audits on a reimbursable basis. However, several agencies have expressed concerns about accepting payment via any method except Treasury transfer, as is the usual practice for interagency work. There has been some discussion about whether a three-way interagency agreement (FCC, USAC, and other federal agency) will be acceptable. Unfortunately, this is creating difficulties in obtaining audit resources from other federal agencies. Both OIG counsel and the OGC are working on aspects of this issue.

As we have stated, we believe it is appropriate and consistent with applicable regulations to utilize the Universal Service Fund to fund our oversight of the Schools and Libraries Program; however, at this time the FCC OGC is not sufficiently comfortable with the use of USF funds for this purpose. Because of the difficulties we have experienced related to the use of the USF, we have considered the use of appropriated funding and have discussed this option with FCC management. We realize that the anticipated cost of the oversight program (estimated at between \$2 million and \$6 million not including the cost of audit support to investigations) would require significant shifting of resources from other Commission programs and operations.

While we have been working to obtain audit resources, our entire program audit staff, comprised of 2 full time equivalent (FTE) positions, has been dedicated to this program. This has severely impacted our ability to perform other planned program audit work and will continue to do so for the foreseeable future. We

## Oversight of the Universal Service Fund (USF)

estimate that the audit portion of our nation-wide Schools and Libraries Program will require approximately 15 FTE positions (based on a statistical analysis of the program year 2 universe).

### **Conclusions**

In conclusion, we would like to emphasize that we are addressing oversight of the Schools and Libraries Program on all fronts and will continue to do so. Despite obstacles and the impact this effort has had on other aspects of our annual audit plan, we believe we have made significant progress toward ensuring the program is protected from fraud, waste and abuse. However, our oversight program will be incomplete and “ad hoc” in nature until the federal funds issue and difficulties in obtaining and funding sufficient audit resources are resolved.

# Audits

- I. **Financial statement audits provide reasonable assurance about whether the financial statements of an audited entity present fairly the financial position, results of operations, and cash flow in the conformity with generally accepted accounting principles. These financial related audits are used to determine whether financial information is presented in accordance with established or stated criteria and also to determine whether the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.**

- A. **Fiscal Year 2001 Financial Statement Audit**

This audit is being performed as part of our continuing effort to support management efforts to align the FCC's financial accounting and reporting systems with applicable accounting principles and standards, Federal laws and regulations, and policy guidance. This is important both internally to the Commission's operations and necessary in support of the audit of the Consolidated Financial Statements of the United States. The Department of the Treasury requests "non-CFO" agencies such as the FCC to annually verify financial data submissions recorded in its Federal Agencies' Centralized Trial-Balance System II (FACTS). In response to this request, the FCC prepares financial statements in accordance with Generally Accepted Accounting Principles (GAAP) for the Federal Government to facilitate verification of its FACTS transmissions.

The objective of this audit is to provide an opinion on the fiscal year 2001 financial statements. With the assistance of an independent public accounting firm, the OIG plans to continue initiatives to address reengineering financial management at the FCC. Specific tasks will include performing procedures necessary to comply with OIG audit and verification requirements from OMB and the Department of the Treasury, respectively. Follow-up procedures will address any identified material weaknesses and reportable conditions from the fiscal year 2000 audit.

# Audits

## Completed Work

In conjunction with the fiscal year 2001 Consolidated Financial Statement Audit, the OIG issued Agreed-Upon Procedures Reports on the Federal Communications Commission and Universal Service Fund Reporting Entity's Final Account Groupings Worksheet (AGW) in accordance with *Treasury Financial Manual*, Transmittal Letter No. 602, Part 2, Chapter 4000, Section 4050 – Account Groupings Worksheet Process. Additionally, the OIG submitted its Agreed-Upon Procedures Report for the Federal Communications Commission Federal Intragovernmental Activity and Balances in accordance with Chapter 4000, Section 4030.80 – Federal Intragovernmental Transactions Process. All three reports were submitted to the Office of Management and Budget, the General Accounting Office, and the Department of the Treasury per the *Treasury Financial Manual*.

## Open Issues

On March 22, 2002, the OIG provided a draft Independent Auditor's Report on Internal Control and draft Independent Auditor's Report on Compliance with Laws and Regulations to FCC management for comment and review. The OIG expects to issue the Independent Auditor's Reports, which include the audit opinion, in April 2002.

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

- A.** Contract audits were initiated in fiscal year 2000 out of a concern that FCC was receiving a fair return on contractors' money spent. Each year funds are set aside to ensure a reasonable sampling of contractors' money and are audited on a spontaneous basis to provide assurance that contractors' costs are being adequately controlled.

# Audits

## **1. Report on Audit of International Transcription Services, Inc. Revised Request for Equitable Price Adjustment (REA) Under Contract No. FCC 96-11 (Report No. 01-AUD-10-39), November 13, 2001**

The objective of this audit was to determine whether the books and records of International Transcription Services, Inc. supported each element of the proposal and that the costs were acceptable as a basis for negotiation. It was performed under our interagency agreement with the Defense Contract Audit Agency (DCAA).

As a result of the review, we concluded that the revised equitable adjustment claim was not prepared in accordance with the appropriate provisions of FAR and the contract. Because the inadequacies were considered significant, we concluded that the revised equitable adjustment claim was not an acceptable basis for settlement.

## **Reports on Audits of Labor Charging and Timekeeping Practices**

Labor costs represent the most significant element of cost charged to Commission contracts. We perform audits of contractor labor charging and timekeeping practices to determine whether the policies, procedures, and internal controls are well defined and reasonable in concept and to determine if they are being effectively implemented by contractor personnel to ensure the timely and accurate recording, distribution, and payment of labor costs. To accomplish these audit objectives, auditors from the DCAA performed unannounced floor checks of contractor employees. DCAA auditors collected and examined contractor timesheets and interviewed selected contractor personnel.

## **2. Report on Audit of Labor Charging and Timekeeping Practices of Digital Systems Group (Report No. 01-AUD-12-53), October 12, 2001**

The objective of this review was to evaluate the labor charging and

## Audits

timekeeping practices of Digital Systems Group (DSG). Auditors collected timesheets and interviewed selected DSG employees and verified employees' labor charges to the contractor's labor distribution report. The floor check disclosed no significant deficiencies in the contractor's timekeeping or labor system.

### **3. Report on Audit of Labor Charging and Timekeeping Practices of NOVA Technology, Inc.** (Report No. 01-AUD-12-50), November 9, 2001

The objective of this review was to evaluate the labor charging and timekeeping practices of NOVA Technology, Inc. (NOVA). The floor check disclosed no significant deficiencies in the contractor's timekeeping or labor system. However, as a suggestion to improve the system, we recommended that NOVA require all of its subcontract employees to log their time in the FCC's clock system. We stated that this would increase Commission confidence in labor charges submitted by NOVA employees.

### **4. Report on Audit of Labor Charging and Timekeeping Practices of AAC Associates, Inc.** (Report No. 01-AUD-12-49), December 3, 2001

The objective of this review was to evaluate the labor charging and timekeeping practices of AAC Associates, Inc. (AAC). Our review disclosed that a significant number of those AAC employees that were floor checked failed to keep their timesheets on a current basis. We notified AAC of these deficiencies and recommended that AAC emphasize the importance and requirement for its employees to comply with proper timekeeping procedures. We also requested that AAC provide a written response to these findings and detail the actions they intend to take that will ensure they maintain an adequate timekeeping system. In their response, AAC described the corrective actions they had implemented in response to our findings.

## Audits

### **5. Report on Audit of Labor Charging and Timekeeping Practices of DynCorp Information & Enterprise Technology, Inc.** (Report No. 01-AUD-12-52), December 3, 2001

The objective of this review was to evaluate the labor charging and timekeeping practices of DynCorp Information & Enterprise Technology, Inc. (DynCorp). Our review disclosed that a significant number of those DynCorp employees and subcontractor personnel floor checked at the FCC's Gettysburg and Washington, D.C. headquarters facilities failed to keep their timesheets on a current basis. We notified DynCorp of these deficiencies in a letter to DynCorp's Chief Financial Officer and recommended that DynCorp emphasize the importance and requirement for its employees and subcontractor personnel to comply with proper timekeeping procedures. We also requested that the contractor provide a written response to our findings and identify the actions that they intend to take to ensure that they maintain an adequate timekeeping system. In their response, DynCorp provided a detailed description of the corrective actions that they had implemented to address our findings.

### **6. Report on Audit of Labor Charging and Timekeeping Practices of Vistronix, Inc.** (Report No. 01-AUD-12-51), December 18, 2001

The objective of this review was to evaluate the labor charging and timekeeping practices of Vistronix, Inc. (Vistronix). Our review disclosed that a significant number of those Vistronix employees that were floor checked failed to keep their timesheets on a current basis. We notified Vistronix of these deficiencies and recommended that Vistronix emphasize the importance and requirement for its employees to comply with proper timekeeping procedures. We also requested that Vistronix submit a written response to these findings and detail the actions they intend to take that will ensure they maintain an adequate timekeeping system. In their response, Vistronix provided a description of the corrective actions they had implemented.

# Audits

**B.** Program audits assess whether the objectives of new, or 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 Government Information Security Reform Act Evaluation – Findings and Recommendations** (Report No. 01-AUD-11-43), November 29, 2001

The Government Information Security Reform Act (Security Act), passed last year, focuses on the program management, implementation, and evaluation aspects of the security of unclassified and national security systems. The act requires annual agency program reviews and annual independent evaluations for both unclassified and national security programs. In accordance with the Security Act, the OIG contracted with KPMG, LLP to perform the independent evaluation as required by the act.

The purpose of this review was to perform the independent evaluation of FCC's information security program and practices to ensure proper management and security for the information resources supporting the agency's operations and assets as required by the act. This examination included testing the effectiveness of security controls for an appropriate subset of the Commission's systems. A review of the Commission's security policies, security architecture, business continuity, security capital planning, critical infrastructure, and security program planning and management was also completed during this examination.

The independent evaluation identified sixteen (16) findings, or areas for improvement, in the FCC's information security management, operational and technical controls. Three (3) of the findings were determined to be high-risk, which if exploited, could cause business disruption. Thirteen (13) were determined to be medium risk, which in conjunction with other

# Audits

events could cause business disruption, if exploited.

## **2. Report on Workplace Violence Prevention at the FCC: Risk Assessment, January 15, 2002**

In fiscal year 2000, we determined that workplace violence was an aspect of FCC policy that was in need of review. Workplace violence has gained attention in recent years as evidence accumulates about its frequency and impact. For example, in 1998, the Bureau of Labor Statistics recorded more than 700 homicides at workplaces in the United States. Homicides are the second leading cause of fatal employment injuries. The horrific events of September 11<sup>th</sup>, 2001 have only served to heighten the need to assess our practices for protecting employees and responding to incidents of workplace violence.

The objectives of this risk assessment were to evaluate the nature of risks faced by employees at FCC, to evaluate the existing safeguards in place to protect FCC employees, and to identify high priority actions the FCC should take to further protect its people. Our original intention in performing this review was to perform a risk assessment. We obtained the services of a team of technical experts in the areas of workplace violence, physical security, and information technology security and directed them to assess the security posture of the Commission and compare that posture to best practices in other government agencies and industry. However, during the course of the assessment, we identified areas of the Commission's workplace violence program where immediate improvements could be made. As a result, we developed observations and recommendations that will be tracked and monitored in the same manner as audit findings.

The Commission has taken several positive steps to address the safety and security of its employees, especially after the recent terrorist attacks. However, based on the results of the risk assessment, we concluded that the Commission: 1) does not have a comprehensive workplace violence prevention program; 2) lacks an adequate process to collect and analyze data on workplace violence issues; and 3) should implement improvements to address vulnerabilities in the physical security at Headquarters and field sites. We identified sixteen

# Audits

(16) recommendations that will improve the Commission's workplace violence prevention program when fully implemented. The Commission concurred with all of the reported observations (concurred in part on one observation) and provided a corrective action plan to address the observations.

## **Work-In-Process**

### **Audit of Auction Budget and Financial Management Process**

The Commission carries on budgeting and financial management activities within the Auctions Division of the Wireless Telecommunications Bureau and the Financial Management Division (FMD) of the Office of the Managing Director. The objectives of this review are to identify any duplicative activities, evaluate the effect of identified duplicative activities, and recommend changes for those activities that adversely effect Commission operations.

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

Originally, the management of the auction loan portfolio was performed by the Commission. In August 2000, the Commission contracted out this activity. The objectives of this review are to: (1) document the loan service provider's role; (2) assess the Commission's transition to the new loan service provider; and (3) review the Commission's implementation of its Revenue Accounting and Management Information System (RAMIS) modules that impact the loan portfolio.

### **Follow-up Audit of Consumer Center Information Technology (IT) Security**

The objective of this review is to follow-up on specific findings identified in our June 21,2000 report entitled "Report on Audit of Computer Controls at the FCC National Call Center" to

# Audits

ensure that appropriate corrective actions have been implemented.

## **Credit Card Usage**

There has been much congressional interest in credit card use by federal employees. In response to that interest we are conducting a special review of travel card, purchase card, and gas card usage by Commission employees.

## **Follow-Up Special Review of Web Page Accessibility**

The object of this special review is to evaluate the status and effectiveness of corrective actions that were instituted as a result of recommendations contained in an OIG report entitled “Special Review of Web Page Accessibility” that was issued on January 19, 2001.

## **Audit of Auctions Application Controls**

The Auctions Automations System (AAS) is responsible for the processing of spectrum auctions conducted by the Commission. AAS is the Commission’s system used to sell unused spectrum to the public and includes a web-base component. AAS replaces various manual systems to sell spectrum previously used by the Commission.

The objective of this audit is to determine the extent and effectiveness of application controls in AAS. We will evaluate the efficacy of AAS information security controls, including access controls, separation of duties, application audit trails, and application change controls. We will use authorities such as the Federal Information Systems Control Manual (FISCAM) guidelines in our review.

## **Special Review of Workplace Violence: Data Collection**

The objective of this project is to survey Commission employees to determine perceptions about workplace violence

## Audits

issues including experiences of aggression/hostility, attitudes about the Employee Assistance Program, trust in the FCC to respond appropriately, knowledge about the Commission workplace violence prevention policy, and specific knowledge of weapons in the workplace. The results from this review will be used to assist the Commission in developing a procedure to systematically collect, record and analyze information on incidents of workplace violence.

### **Specialized Training and Activities**

Staff members attended a meeting of the Electronic Crimes Task Force on Steganography and Law Enforcement. The meeting was hosted by the United States Secret Service.

Staff members attended a training course entitled “Analytical Techniques for Financial Investigations.” It was provided under the Multijurisdictional Counterdrug Task Force Training Program.

Thomas Bennett serves on the Audit Executive Council.

Thomas Holleran serves as Liaison to the Executive Council of Integrity and Efficiency (ECIE) and served on the ECIE task force on telecommuting.

### **Public Recognition**

Steven A. Rickrode, Director of Financial Audits, received a FCC Outstanding Customer Service Award in recognition of his excellence in working with the Commission’s Financial Management Division on its audited financial statement.

### **Report Availability**

The OIG reports can generally be obtained via the internet from the OIG web page located on the FCC website [www.fcc.gov/oig](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.

*SPECIFIC REPORTING REQUIREMENTS of  
the INSPECTOR GENERAL ACT*

**The following summarizes the Office of Inspector General response to the twelve 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 "Oversight of the Universal Service Fund" on pages 2 through 9.*

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 "Oversight of the Universal Service Fund" on pages 2 through 9.*

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

*No significant recommendations remain outstanding.*

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

*One case associated with the Commission's Universal Service Program has been referred to the Department of Justice.*

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

*SPECIFIC REPORTING REQUIREMENTS of  
the INSPECTOR GENERAL ACT*

value of unsupported costs) and the dollar value of recommendations that funds be put to better use.

*Each audit report issued during the reporting period is listed according to subject matter and described in part II, above.*

7. A summary of each particularly significant report.

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

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

*The required statistical table can be found at Attachment A 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 Attachment B 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 such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report.

*No audit reports fall within this category.*

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

*No management decisions fall within this category.*

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

*No management decisions fall within this category.*

OIG Audit Reports With Questioned Costs

**Table I.**

Inspector General Reports With Questioned Costs	Number of Re- ports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	4	\$1,064,276	\$278,701
B. Which were issued during the reporting period.	1	\$4,104,813	-
Subtotals (A + B)	5	\$5,169,089	\$278,701
C. For which a management decision was made during the reporting period.	1	-	-
(i) Dollar value of disallowed costs	-	\$600	-
(ii) Dollar value of costs allowed	-	\$601	-
D. For which no management decision has been made by the end of the reporting period.	4	\$5,167,888	\$278,701
Reports for which no management decision was made within six months of issuance.	3	\$1,063,075	\$278,701

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

**Table II.**

Inspector General Reports With Recommendations That Funds Be Put To Better Use	Number of Reports	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	-	-
B. Which were issued during the reporting period.	-	-
Subtotals (A + B)	-	-
C. For which a management decision was made during the reporting period.	-	-
(i) Dollar value of recommendations that were agreed to by management.	-	-
- Based on proposed management action.	-	-
- Based on proposed legislative action.	-	-
(ii) Dollar value of recommendations that were not agreed to by management.	-	-
D. For which no management decision has been made by the end of the reporting period.	-	-
For which no management decision was made within six months of issuance.	-	-

# 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. 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**

Eleven cases were pending from the prior period. All of the eleven pending cases, which involve the Commission's Universal Service Fund (USF) program, were referred to the Federal Bureau of Investigation (FBI) and three have since been closed due to investigation by local authorities or the lack of evidence to warrant action by the OIG and/or FBI. Twenty-three complaints were received during the reporting period, of which thirteen are related to the USF program. The thirteen USF related matters have been referred to the FBI or local law enforcement entities. Over the last six months, in addition to the three USF related cases that were closed, seven other cases were closed. As of March 31, 2002, a total of twenty-four cases are still pending, twenty-one of which relate to the USF program. The OIG continues to monitor and coordinate activities, as appropriate, regarding the USF related matters. Investigations with respect to the other three non-USF related pending cases are ongoing. Finally, in addition to case management, an internal assessment of the investigation

# Investigations

program was conducted during the period. It was conducted in accordance with the “Guide for Conducting Qualitative Assessment Reviews of the Investigative Operations of Offices of Inspector General.” The guide was established by the President’s Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). As a result of the evaluation, appropriate revisions were made to our internal investigative policies and procedures.

## STATISTICS

Cases pending as of September 30, 2001 .....	11
New cases .....	23
Cases closed .....	10
Cases pending as of March 31, 2002 .....	24

## SIGNIFICANT INVESTIGATIVE CASE SUMMARIES

The OIG initiated an inquiry into allegations that Commission employees may have abused Commission telephones by making personal long distance telephone calls. Through investigation, this office was unable to establish sufficient evidence of employee misconduct rising to the level to constitute abuse. Accordingly, the matter was closed.

The OIG initiated inquiry into the matter of a missing emergency contact list. OIG was unable to find sufficient basis that non-public information was improperly released or disclosed and not merely misplaced. Accordingly, OIG found insufficient evidence of misconduct and the matter was closed.

The OIG initiated inquiry into allegations of procedural improprieties in the granting of a salary step increase for a Commission employee. Specifically, it was alleged that the employee acted improperly in executing the authorization form for a salary increase for which the employee was the recipient. The form approving the increase was also executed by the bureau chief and the deputy bureau chief, both of whom were supervisors of the employee. Through investigation, it was determined that as a supervisor, the employee in question routinely was one of the signatories on the salary increase forms. Further, it was determined that while the applicable personnel

# Investigations

regulations required that a bureau or office chief approve salary increases, the regulations did not specify who else was required to execute the form. Accordingly, the OIG found insufficient evidence of employee misconduct and the matter was closed.

The OIG initiated case inquiry into possible release of non-public information concerning a notice of apparent liability that was under consideration by the Commission. Specifically, it was alleged that information, contained in a draft decision, concerning the approximate amount of the fine that was being considered by the Commission in the matter was released to a member of the press. The information appears not to have been published. The OIG was unable to find any evidence that the draft document itself was given or shown to the reporter in question. Other than the reporter's own assertion that he had information concerning the matter, the OIG was unable to find sufficient evidence to establish that the source of the information for the reporter was from within the Commission. Accordingly, the matter was closed.

The OIG conducted an inquiry into improper communication by a former Commission employee with Commission staff in violation of post employment restrictions of 18 U.S.C. Section 207. The alleged misconduct consisted of the transmittal by the employee of a letter on an issue being considered by the Commission. OIG determined that the former employee communicated with the Commission in his personal and individual capacity and not as a representative of an organization or another person. Accordingly, the employee's conduct did not violate the applicable post employment restrictions and the matter was closed.

The OIG initiated an inquiry into improper contact by an employee of the Commission of personnel at a television network. In the course of the contact the employee identified herself as a Commission employee. The inquiry was initiated to determine if the employee's conduct was improper and amounted to an abuse of position in violation of applicable standard of conduct regulations. Through investigation, the OIG determined that the employee had contacted the network for the purpose of offering assistance from a personal perspective on a news item, not related to Commission business. Further, the OIG determined that while the employee's employment did come up in the course of the conversation, it was only raised for the purpose of demonstrating that the employee was not an extremist or fanatic. Finally, it was found that the network personnel with whom the employee spoke never thought that the employee was calling in her capacity as a Commission employee, but only as a private citizen. Accordingly, the matter was closed due to the lack of evidence of misconduct.

# 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 those legislative proposals, which directly or indirectly impact on the ability of Designated Federal Entity IGs to function independently and objectively. Those specific proposals concerned proposals to consolidate OIGs and to directly and/or indirectly draw distinctions between presidentially – appointed IGs and Designated Federal Entity IGs, which may have the effect of undermining the role of the latter.

# OIG Hotline

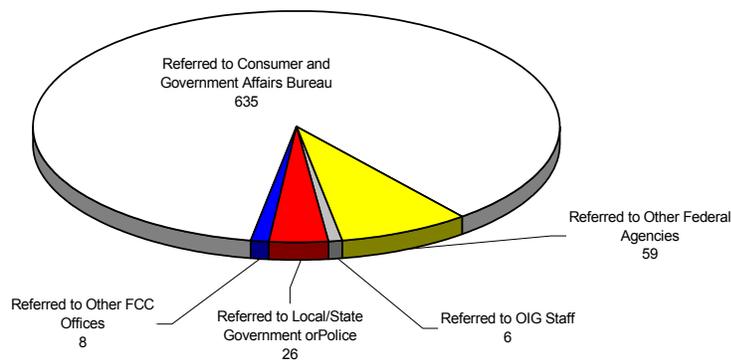
## HOTLINE CALLS

During this reporting period, the OIG Hotline Technician received 734 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. Examples of calls referred to the NCC 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

Between October 1st and March 31

Total 734 calls



# 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](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*