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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. 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.

As of March 31, 1996, the FCC had 2062 full-time equivalent employees (FTEs), most of whom are in located in Washington, D.C. FCC Field Offices are located throughout the United States.

The Chairman and four Commissioners are appointed by the President and confirmed by the Senate. Reed E. Hundt has been the Chairman of the FCC since November 1993. As of the time of this report, the FCC has three sitting Commissioners; James H. Quello, Rachelle B. Chong, and Susan P. Ness. Former Commissioner Andrew C. Barrett left the Commission effective March 30, 1996.

On February 8, 1996, President Clinton signed into law the Telecommunications Act of 1996, (Pub.L.No.104-104). This Act represents the first major overhaul of telecommunication law in almost 62 years. The Act is targeted at ensuring universal service to all Americans and revises rules related to media ownership and phone service. The Act also includes a provision calling for the installation of a V-chip in every new television. The Commission will be active in the coming months in developing the rules necessary to implement this new law.

As identified in our previous semiannual report, the Chairman proposed a field office restructuring plan that would result in the closure of nine attended frequency monitoring stations and three additional monitoring sites located at FCC field offices. This streamlining initiative calls for the replacement of these stations with a national automated monitoring network whose network central station will be located at the existing Columbia, Maryland facility. The plan also calls for the closure of nine of the 25 existing field offices as well as three of the six regional offices. Two technical staff members will continue to be assigned as resident agents in the nine locations in which field offices will be closed. On October 13, 1995, the Commission voted 4-1 to support the planned organizational restructuring. Overall, authorized staffing within the effected Bureau, the Compliance & Information Bureau (CIB), will decrease by about one-third, from 384 to 254 positions as a result of the restructuring of field operations. The plan was reviewed and approved by the House and Senate Appropriations Committees.

As a component of the reorganization, which is projected to result in annual savings of eight million dollars, the Commission will open a nation-wide call center to be housed in the existing FCC facility located in Gettysburg, Pennsylvania. This call center opening in June 1996, will serve as the Commission's contact point for those parties seeking information about the FCC and all facets of Commission operations. The overall goal of this clearinghouse operation is for the Commission to better serve the needs of the public in an economical and efficient mode.

The Commission continues to auction spectrum as authorized by the U.S. Congress in 1993. The House Budget Committee estimated at that time that auction receipts over a five-year period would reach $10.2 billion. Subsequent estimates by the Congressional Budget Office and Office of Management and Budget in 1994, estimated auction receipts of $8.1 billion and $12.6 billion respectively. On April 5, 1996, the Commission announced that "the FCC has reached the $20 billion mark in total auction revenues to be deposited with the U.S. Treasury." In reacting to this milestone, Chairman Hundt stated that "We have exceeded all expectations....Auctions have proven once again to be a success not only by awarding licenses to those that value them most, but also by decreasing the national debt."

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 reports directly to the Chairman. The OIG is located in Room 752 in the FCC headquarters building at 1919 M Street, N.W., Washington, D.C. 20554. The office is staffed by the Inspector General and four staff members: three auditors and a staff assistant who also serves as the hotline technician. On April 14, 1996, the Chairman officially appointed Mr. H. Walker Feaster III to be the permanent Inspector General. Mr. Feaster had been Acting Inspector General since November 14, 1994. Mr. Feaster has held a variety of management positions since starting with the FCC in 1974. His previous position was that of Associate Managing Director for Program Analysis in the Office of the Managing Director. He holds a B.S. in Business Administration from Drexel University, a M.S. in Government from Southern Illinois University, and an M.B.A. in Finance from American University.

As reported in our previous semiannual report, on May 6, 1995, Robert G. Andary, who served as the Counsel to the Inspector General and Director of Investigations for this office, accepted the position of Inspector General of the Federal Labor Relations Authority (FLRA). A vacancy announcement was issued on March 21, 1996, to fill this vacant position. Pending the selection of a candidate, Paul Brachfeld continues to serve as the Acting Director of Investigations while continuing in his ongoing capacity as the Director of Audits. On April 3, 1996, a vacancy announcement for an additional audit position closed. An applicant selection was made on April 23, 1996.

This report includes the major accomplishments and general activities of the OIG during the period October 1, 1995, through March 31, 1996, in accordance with Section 5 of the Inspector General Act of 1978, as amended 5 U.S.C. App. 3, § 5.

AUDITS

OVERVIEW

Two audit reports were issued by the Inspector General during this reporting period. On March 18, 1996, the OIG issued the Final Audit of Fiscal 1994 Spectrum Auction Implementation Cost (OIG Report No. 95-6). The report reflects the ongoing efforts of the OIG to support the conduct of successful spectrum auctions and encourage the development and implementation of strong financial management controls within the Commission. Likewise, with the issuance on March 28, 1996, of the Report on the Follow-up Audit of Physical Security of the Local Area Network, the OIG continues in its commitment to provide management with an independent and knowledgeable insight into the operational integrity of FCC information systems.

During this reporting period, OIG auditors also continued to provide significant input towards the successful discharge of investigative case activity which resided within this office. This office strongly endorses the concept of multidisciplinary teams. The Executive Council on Integrity and Efficiency (ECIE), in their Annual Progress Report to the President for FY 1995, focused upon this concept. In expressing rational for utilizing multidisciplinary teams, the ECIE incorporated the narrative drafted by this office in the Annual Progress Report to the President for FY 1995, as follows:

> The nature of criminal activity is such that most illegalities are inspired by the potential for actual realization of financial gains. Often criminal activity is facilitated by weaknesses in internal controls in a program or operational area. As auditors are skilled in examining systemic weaknesses and recommending corrective action, it is the policy of this office that audit resources be extended to assist the investigative side of the office.

The auditors continued to serve as a reference tool for agency personnel in a myriad of areas to include: financial operations; security and integrity over automated systems; and matters pertaining to ethics and potential ethical violations.

The OIG audit staff is currently involved in formatting an internet web site. The primary focus of this initiative will be to provide information about the office and make all work products available electronically.

SIGNIFICANT AUDIT ACTIVITY

1.FINAL AUDIT OF FISCAL YEAR 1994 SPECTRUM AUCTION IMPLEMENTATION COST (No. 95-6)

The report was issued March 18, 1996

The Omnibus Budget Reconciliation Act of 1993, as amended on August 10, 1993, added a new section 309(j) to the Communications Act of 1934. This amendment to the Communications Act gave the FCC express authority to employ competitive bidding procedures to choose from among mutually exclusive applications for initial licenses. In Fiscal Year (FY) 1994, the Commission promulgated general rules governing the spectrum auction process and specific rules governing the auction of licenses for the narrowband Personal Communications Service (PCS) and Interactive Video and Data Service (IVDS) licenses. On July, 29, 1994, the Commission completed its auction of ten narrowband PCS licenses with a total high-bid value of $617,006,674. Concurrently with the narrowband PCS auction, the Commission conducted an auction of 594 IVDS licenses. The total value of bidding for these licenses, following adjustment for bidding credits, was $213,892,375.

In addition to providing the Commission authority to auction licenses, the amendment gave the Commission the authority to receive reimbursement for the cost of implementing this means of allocating spectrum. Section (8)(B) of the new section 309(j), entitled Retention of Revenues, states the following:

"Notwithstanding subparagraph (A), the salaries and expenses account of the Commission shall retain as an offsetting collection such sums as may be necessary from such proceeds for the costs of developing and implementing the program required by this subsection. Such offsetting collections shall be available for obligation subject to the terms and conditions of the receiving appropriations account, and shall be deposited in such accounts on a quarterly basis. Any funds appropriated to the Commission for fiscal years 1994 through 1998 for the purpose of assigning licenses using random selection under subsection (i) shall be used by the Commission to implement this subsection."

The objective of this audit was to examine the system implemented by the Commission in FY 1994 to record and report auction cost information and to determine whether the system was providing timely, accurate and meaningful financial information to FCC management. Auditors identified two areas -- personnel compensation and automation -- in which improvements could be made to ensure that future auction activity corresponded with timely and accurate financial information. Both areas involved the lack of adequate documentation to support reported costs. Specifically, the lack of adequate documentation resulted in the auditors developing questioned costs in the amount of $297,041.

The auditors noted that there was no evidence to suggest that the conditions identified in this report resulted from any deliberate attempt to circumvent accounting controls. Rather, the auditors were of the opinion that the Commission, in focusing it's energy and efforts towards instituting a successful auction program in a short time frame, did not adequately address administrative issues.

The final audit report contained three recommendations for corrective action to which full concurrence by management was received. Furthermore, in his response to the draft report dated January 31, 1996, the Managing Director represented to the OIG that corrective measures had already been implemented to address each of the audit recommendations.

While not within the scope of this audit report, it should be noted that the FCC has completed four additional spectrum auctions, while two auctions remain in process as of the close of this reporting period. On April 5, 1996, the Commission announced that the FCC had reached the $20 billion mark in total auction revenues to be deposited with the U.S. Treasury.

2. REPORT ON THE FOLLOW-UP AUDIT OF PHYSICAL SECURITY OF THE LOCAL AREA NETWORK (No. 96-1)

The report was issued March 28, 1996

On March 30, 1994, the OIG issued the Report on the Audit of Physical Security of the Local Area Network. In that report, the OIG concluded that the FCC had not established internal controls which adequately protect components of the FCC network from physical and environmental threats. The objective of this audit was to determine whether the

Commission had implemented a corrective action program in response to the aforementioned report. An additional objective was to evaluate the controls in place to ensure the protection of network microcomputer work stations and laptops from physical and environmental threats.

During the review, the auditors identified significant improvements in the Commission's computer security program. For example, subsequent to the issuance of our 1994 report, the FCC completed a network risk assessment and developed a comprehensive security 2-year plan. In addition, the Commission issued a final version of the "FCC Computer Security Directive." This Directive provides a comprehensive framework for managing computer security on the variety of hardware and software platforms used by the FCC.

Although the OIG recognized significant progress in the Commission's computer security program, the auditors found that further improvements are necessary to protect the network from physical and environmental threats. Towards that goal, the OIG recommended implementation of a series of controls to improve the security over network hardware. The Managing Director concurred with the two audit recommendations for corrective actions.

The OIG also examined the management of laptop computer resources. Prior to 1994, a limited number of laptop computers resided within the FCC. In the past two years, as a part of the FCC's automation initiative, the FCC purchased over two hundred (200) additional laptop computers with an acquisition cost ranging from $2,455 to $6,149 per unit. In order to evaluate accountability over laptop computers, the auditors sought to physically verify a statistically derived sample of the overall population of three-hundred and seven (307) units. Using a statistical model based upon a ninety-five percent (95%) implied confidence factor and an acceptable error rate of five percent (5%), the auditors selected fifty-four (54) laptop computers for physical verification. Of the sample population, six (6) were not located, one (1) was reported as stolen and eleven (11) were not physically produced for physical verification.

Based upon review of internal procedures, results of interviews and sample results, the auditors determined that the Commission had not established an adequate program for managing laptop computer resources commensurate with the financial investment and potential for loss of data. In order to address this condition, the OIG developed and addressed two recommendations for corrective action to the Managing Director. The Managing Director concurred with both recommendations.

INVESTIGATIONS

OVERVIEW

Investigative matters pursued by this office are generally initiated as a result of complaints alleging fraud, waste, abuse, corruption or mismanagement by FCC employees, or affecting the programs or operations of the Commission. Upon receipt of a complaint which alleges 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 Commission employees. Investigative findings may lead to criminal prosecution, civil prosecution, or administrative action.

The OIG maintains a formal hotline for referral of potential waste, fraud, abuse and mismanagement of FCC programs or operations. All FCC staff were notified of the establishment of the hotline and a Public Notice was issued by the Commission. The hotline number, 202-418-0473, is administered by the Special Assistant to the Inspector General.

INVESTIGATIVE ACTIVITY

During this reporting period, OIG investigative activity focused on two major investigations. One investigation involved the alteration of time and attendance card data by an FCC employee. This case is outlined in detail below. The second investigation remains in an ongoing status and, as such, no further details are provided in this semiannual report. In addition, the OIG continued to monitor a case previously referred to the Department of Justice and closed three additional investigative cases.

Time and Attendance Fraud on the Part of an FCC Employee
Status: Closed March 14, 1996

On October 24, 1995, an investigative referral was made to the OIG involving potential fraudulent activity on the part of personnel within the Common Carrier Bureau (CCB). Details of the allegation involved the falsification of payroll data by one or more timekeepers. The OIG performed investigative work in this area culminating in the issuance of an Investigative Report to the Chairman and other senior staff members dated March 14, 1996.

The Investigative Report identified that the FCC had not established internal controls necessary to address deficiencies in the time and attendance system designed and maintained by the National Finance Center, a component of the Department of Agriculture. Evidentiary matter suggests that an FCC employee exploited these internal control weaknesses and was thus able to receive payments in the amount of $1002.76 for 86 hours worked when in actuality she should have been in a Leave Without Pay (LWOP) or Absent Without Leave (AWOL) status.

In addition to directing the FCC to initiate action to recover funds fraudulently disbursed, the OIG recommended that administrative action be taken against two FCC employees including the financial beneficiary of the fraud. The Investigative Report also provided management with two recommendations to mitigate the potential for future instances of payroll fraud on the part of time keepers. Management concurred with all recommendations and is currently acting to terminate the primary subject of the investigation.

<u>Allegation of Discrimination by Mass Media Bureau in Licensing an FM Radio Station</u>
Status: Closed March 19, 1996

In this reporting period, the OIG closed an investigation brought by an applicant for an FM radio station in Anchorage, Alaska. The applicant claimed that "(t)he Chiefs of the Audio Services, Mass Media Bureau, have applied the rules of competing for a new FM radio station in Anchorage, Alaska in favor of fraudulent applicants." The investigation found that program officials appropriately invoked Section 73.211 of the Commission's Rules, 47 C.F.R. § 73.211, when it dismissed the complainants application. The Commission found that four of the seven other applicants for the Anchorage station proposed compliance with minimum Class C FCC requirements while the complainant sought a waiver from these requirements. No evidence was identified during the investigation of irregularities on the part of any FCC employees.

Allegation of Improper Conduct Within the International Bureau
Status: Closed January 29, 1996

At the request of the Chief, International Bureau, the OIG performed investigative work in order to determine the basis for an allegation that FCC employees had engaged in improper conduct. An FCC employee within the International Bureau had informed the Chief, International Bureau that she had been solicited to use her official position to: (1) illegally issue visas; (2) choose companies owned by friends and relatives for fellowship programs or choose unqualified candidates for training with personal travel in mind; and (3) engage in actions which would be illegal.

Based upon interviews of the claimant and other effected personnel a determination was made that no basis existed to support these allegations. Furthermore, no evidentiary matter was derived which would show that any illegality had occurred on the part of any FCC employee.

Potential Violation of 18 U.S.C. § 207 (a) (2)
Status: Open

As reported in our previous semiannual report, on November 4, 1994, the OIG was made aware of a possible violation of the two-year post-employment restriction of 18 U.S.C. § 207 (a) (2) by a former high level FCC employee. This matter was initially developed and forwarded on December 5, 1994, to the Public Integrity Section, Criminal Division, Department of Justice. During this reporting period the OIG concluded investigative activity and prepared a summary report to the Public Integrity Section, Criminal Division, Department of Justice. The OIG awaits resolution in this matter, and thus, is maintaining this investigation in an open status.

MANAGEMENT AND ADMINISTRATION

H. Walker Feaster III was appointed Inspector General on April 14, 1996. Mr. Feaster, as Acting Inspector General during the six-month reporting period covered by this report, initiated substantive work to further focus the work of this office towards addressing the needs of the Agency. That is, to ensure the integrity and efficiency of FCC operations during a period in which our mission is rapidly expanding and our fiscal resources are significantly constrained.

The FCC is an organization that is in the process of reinventing itself in order to meet the ever changing needs of the customers of the Commission, and the new legislation which is being enacted by Congress. In the FY 1994-1995 time frame, the focus of the FCC was directed at meeting the needs of our ongoing customers while successfully implementing the auction program. This functional universe has been further expanded in the current year with the passage of the 1996 Telecommunications Act.

The Commission is in the process of implementing additional automated systems to speed customer service through electronic filings, call-center operations, internet access to core FCC data bases and numerous other facets of agency operations. The OIG is acting to bring our audit universe up to speed with the new look of the FCC. Audits are being planned in new program areas which traditionally house the greatest levels of risk, constitute significant financial investment and maintain high visibility. The OIG is revising the Strategic Plan to better address the new look FCC and will be issuing new directives both internal to the OIG and external to the other Bureaus and Offices.

The OIG will attempt to operate in a proactive mode in areas in which this office can make a positive impact. One example is the procurement function. An additional audit position has been allocated to this office in order to obtain an auditor with significant experience in the U.S. Government procurement arena. The focus of this position will be directed towards pre-award contract audits, financial capability of prospective contractors, validity and support of invoices versus status of deliverables and contract close-out activities. The goal is to assist management in getting the best deliverables possible at the most economical cost to the taxpayer.

The Inspector General has also requested a peer review in the coming reporting period in order to ensure that this office is operating in full compliance with applicable regulations and laws.

SPECIFIC REPORTING REQUIREMENTS OF SECTION 5(a) 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.

No such problems, abuses, or deficiencies were disclosed during the reporting period.

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).

No recommendations were made. See the response to paragraph (1).

3. An identification of each significant recommendation described in previous semiannual reports on which corrective action 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.

An investigation which was opened during the previous reporting period and referred to the U.S. Department of Justice pursuant to section 4(d) of the Inspector General Act remains in an open status. The investigation involves a potential violation of post-employment restriction of 18 U.S.C. § 207 (a) (2).

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 part III, above.

7. A summary of each particularly significant report.

Each audit report issued during the reporting period is summarized in part III, above.

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 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 management decisions 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.