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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 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. William E. Kennard was confirmed as Chairman on October 29, 1997. Chairman Kennard previously served as the General Counsel of the FCC since coming to the Commission on December 8, 1993. Harold W. Fuchtgott-Roth, Michael Powell, and Gloria Tristani were seated as Commissioners during this reporting period, joining Susan P. Ness who has served as a Commissioner since May, 1994. The majority of FCC employees are located in Washington, DC. FCC field offices and resident agents are located throughout the United States.

The FCC is actively involved in planning for the consolidation of the Commission into the Portals facility located at 1250 Maryland Avenue, S.W., Washington D.C. Phase 1 of the move is presently scheduled for October, 1998. The Office of Inspector General (OIG) is tentatively scheduled to occupy space on the second floor of the Portals. OIG personnel continue to work with responsible Commission officials to ensure that the unique requirements for security and confidentiality of persons wishing to visit the office are fully addressed.

The Commission continues to auction spectrum as authorized by the U.S. Congress in the Omnibus Budget Reconciliation Act of 1993. On February 18, 1998, the FCC concluded the most recent auction, the Local Multipoint Distribution Service auction of spectrum located in the 28 and 31 GHz bands. This represented the largest amount of spectrum the FCC has auctioned to date. These frequencies can be used to provide a number of services including wireless telephony, data Internet access and video. The total net revenue raised by this auction totaled

\$578,663,029. The latest auction results raise the net revenues of spectrum auctions conducted by the FCC to approximately \$23 billion dollars. The OIG continues to place significant emphasis on evaluating and testing the security and reliability of automated systems dedicated to the successful conduct of all phases of spectrum auctions. In this reporting period, through a comprehensive testing methodology, auditors continued to assess the integrity of data maintained in the existing Collection System. Validation of data residing in the existing system is essential before that data can be exported to populate the new collection system in fiscal year (FY) 1999. In the six-month period covered by this report, auditors completed a Special Review of Auction Application Security and performed fieldwork related to auction information technology (IT) security. The auction IT security fieldwork and report are scheduled for completion in April, 1998.

The OIG continues to provide expertise to the Commission in the procurement and contracting area. In this reporting period, the OIG issued two contract audit reports, one of which developed questioned costs of \$12,420. Audit activity also resulted in the receipt by the FCC of \$20,000 for rental payment owed the Commission by a contractor for use of FCC space.

Two major investigations were concluded with the release of final investigative reports during this reporting period. On March 23, 1998, OIG Investigative Report 96-2-A-04 was forwarded to the Chairman. This report identified improper administrative conduct on the part of FCC employees that established an environment in which the FCC was highly vulnerable to illicit activity on the part of a subcontractor. Prompt and decisive intervention by OIG personnel minimized the financial loss to the FCC and actually resulted in cost recoveries and withholding of contractor invoice payments totaling \$294,966.84, to date. In addition, the OIG supported the Federal Bureau of Investigation (FBI) and the United States Attorney's Office (USAO) for the District of Columbia, in obtaining a multi-count felony conviction of the subcontractor and a co-defendant.

A second significant investigation was concluded on March 31, 1998, with the release of OIG Investigative Report 97-4-C-08. This report addressed the improper conduct on the part of FCC employees who used the internet to "surf" to pornographic sites and, in some cases, download and store pornographic images and textual depictions of pornographic events on Commission computers. Such conduct was determined to be in violation of 5 CFR § 2635.704, entitled "Use of Government property" and 5 CFR § 2635.705, entitled "Use of official time."

On October 30, 1997, the OIG issued Inspection Report No. 97-08, summarizing the results of our inspection of seven offices in the South Central and Western Regions. During this inspection cycle, the focus of our effort was an assessment of the effect of restructuring of the Compliance and Information Bureau (CIB).

The OIG has dedicated itself to assisting the Commission as it continues to improve its efficiency and effectiveness. The Inspector General (IG) 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 IG, H. Walker Feaster III and six staff members. Paul Brachfeld serves as the Assistant Inspector General for Audits (AIGA). On April 1, 1998, Charles J. Willoughby assumed the position of Counsel and Assistant Inspector General for Investigations (AIGI). This position had been vacant since Robert G. Andary left the FCC on November 8, 1997, to become IG at the Government Printing Office. Mr. Willoughby has had a distinguished career and has held such positions as Senior Associate General Counsel for Litigation at Howard University, Staff Counsel to the U.S. House of Representatives Committee on Standards of Official Conduct, and Assistant U.S. Attorney, for the District of Columbia.

This report includes the major accomplishments and general activities of the OIG during the period October 1, 1997, through March 31, 1998, in accordance with Section 5 of the Inspector General Act of 1978, as amended 5 U.S.C. App. 3, § 5.

AUDITS

OVERVIEW

On March 13, 1998, the OIG Audit Staff was the recipient of the Exemplary Organization of the Year Award from Chairman Kennard for the outstanding and dedicated work performed by the staff in a time of limited resources. Specific mention was made of the assistance the staff provided to the FBI and the USAO in securing the multi-count felony conviction of persons who acted to defraud the FCC.

During the reporting period, the OIG issued three audit reports, one audit survey report, and eight final reports reflecting the results of our Field Inspection Program. On November 8, 1997, the AIGI position was vacated and the AIGA assumed the additional position as Acting AIGI. Over this reporting period, investigative activity consumed well over half of available audit staff hours. Details related to the investigative caseload and accomplishments are provided in the Investigations section of this report. An OIG auditor also continued to chair the committee of senior FCC management officials dedicated to supporting the Commission's efforts to acquire and implement a financial computer system to track collections information. As part of this effort, the OIG subcontracted with the accounting firm of Ernst & Young to assess the integrity of data contained in the collection system. Results indicate that some data integrity concerns exist. Fieldwork related to this data integrity task has been completed and a report will be issued in April, 1998. Likewise, fieldwork for a followup review of auction site IT security has concluded and the audit report is currently being drafted.

The nature of the work performed at the FCC, and the customers that we serve, make the security and integrity of our information systems a paramount consideration. In testimony before the House Subcommittee on Commerce, Justice, State and the Judiciary on March 25, 1998, Chairman Kennard addressed the FCC's Year 2000 plans and related FY 1999 funding request of \$5,765,000. The Chairman stated that "FCC systems which have been identified as having significant Year 2000 compliance issues include our applications processing, fees collection, tariff tracking and public comments filing systems. For each of these systems, we have completed requirements studies to replace them with restructured and, in many cases, integrated, state-of-the-art electronic filing and relational database systems." The OIG continues to actively monitor this effort which is directed towards ensuring that the FCC is prepared to address issues related to the Year 2000 conversion. In addition to monitoring the Commission's progress in dealing with Year 2000 issues, an OIG auditor participates in a Commission working group that

monitors the efforts of telecommunications and broadcasting companies addressing the Year 2000 problem and works with their customers to ensure their service will not be disrupted.

OIG audit staff continue to monitor the FCC's activity related to the Government Performance and Results Act of 1993 (GPRA). GPRA is intended to improve efficiency and effectiveness of federal programs through the establishment of specific goals for program performance. The Office of Management and Budget (OMB) has called upon IGs to "assess agencies' technical compliance with the Results Act as well as their capacity to comply from a data and systems perspective." The OIG will perform audit fieldwork in the second half of FY 1998 to report upon the Commission's performance as it seeks to fully implement and address requirements of the Act.

The OIG continues to dedicate resources toward providing the Commission with contract audit support services. In a climate of maximizing service and deliverables to our users while downsizing the size of the Federal government work force, increasingly, functions are being contracted out to the private sector. Furthermore, the Commission is actively involved in upgrading our automated databases. Related systems development and implementation activity requires a skill set which often can only be attained through program services contracts with the private sector. While the OIG within the FCC is staffed with only seven (7) full time equivalent positions (FTEs), the staff has significant collective experience in performing contract audits. Utilizing the existing skill set, the OIG represents the Commission and the Federal government in ensuring that required deliverables are produced in a timely and efficient manner and at a reasonable and supportable cost. In this reporting period, the OIG identified questioned costs in the amount of \$12,420 and worked with management to secure unpaid remittances of \$20,000 due the government from a contractor.

Audit reports can generally be obtained via the Internet at the FCC website: www.fcc.gov. However, special review and audit reports which contain sensitive or proprietary information will be restricted to specific individuals and organizations with a need to know.

SIGNIFICANT AUDIT ACTIVITY

1. SPECIAL REVIEW REPORT NO. 97-4: AUCTION APPLICATION

The report was issued February 9, 1998.

The objective of this special review was to evaluate the security of the FCC Auction Application. The specific objectives of this effort were twofold. The objective of phase one was to identify and evaluate the system of controls established within the FCC Auctions system application to

ensure that they provide a secure environment for participants in the spectrum auction process. To accomplish this objective, system documentation was reviewed and system management personnel interviewed to: (1) identify existing manual and automated controls; (2) design tests for each control identified and conduct the test to determine operational status; (3) identify areas where controls can be improved; and, (4) develop recommendations for specific control improvements.

The objective of phase two of the review was to examine the controls associated with system operation and maintenance. These controls should assure that adequate processes were developed for operating the Auction System and monitoring as well as controlling system changes.

The overall conclusion of the special review was that the Auction Application remote bidding software functioned as intended for auction bidders. However, control improvements were warranted related to segregation of duties, accountability within the application, adequacy of preparedness for contingency planning, and overall access controls. The report contained fifty-three (53) observations and recommendations, many of which had been adopted prior to report issuance. On March 13, 1998, the Wireless Telecommunications Bureau (WTB) provided further response to our report including specific steps being taken to address recommended corrective action.

This report contains sensitive information and will be released only to those organizations with a need to know.

2. AUDIT REPORT ON CONTRACT NO. FCC-93-17

The report was issued March 30, 1998.

The OIG audited Garcia Consulting, Inc. (GCI) costs claimed under selected delivery orders under FCC Contract No. 93-17. The primary purpose of the audit was to determine allowability of the costs claimed under this Time & Material (T&M) contract. The secondary purpose of the audit was to determine the nature, timing and extent of audit procedures needed in order to complete our cognizant audit responsibilities. The contractor provides mail room, data entry, and general support to the FCC as well as management analysis.

The auditors were able to verify all claimed costs pending a final incurred cost audit. However, the auditors discovered that the contractor was using higher direct labor billing rates for the Project Manager and System Analyst III labor categories than were approved by the Contracting Officer (CO). Based upon our report, the contractor and the CO agreed to review the direct labor rates and modify the contract as determined to be appropriate.

3. AUDIT REPORT ON CONTRACT NO. FCC-94-22, TASK ORDER 5
WITH SYMBIONT, Inc

The report was issued December 10, 1997.

At the request of the Chief, Acquisitions Branch, OIG auditors conducted a voucher review of cost incurred under task order five (5) of Contract No. FCC-94-22. This review was requested because the contractor was claiming costs in excess of their original estimate and funding level. The primary purpose of the audit was to determine allowability of the costs claimed under this T&M contract from June 1995 through May, 1997.

OIG auditors found that the contractor did not adequately notify the government of a cost overrun as required by the contract. Of the \$99,725, claimed by the contractor, OIG auditors questioned \$12,420. The Chief, Acquisitions Branch and the contractor concurred with the audit findings.

4. SURVEY OF MASS MEDIA BUREAU LICENSING OPERATIONS (OIG 97-15)

The report was issued October 22, 1997.

An audit survey as to the data integrity of the AM and FM Branch of the Mass Media Bureau (MMB) licensing data bases was undertaken as a means of gaining familiarity and gathering data in this area. During the survey, the auditors: (1) collected information on the MMB and the Audio Services Division (ASD), on ASD licensing databases, and vulnerability assessments; (2) reviewed results of the requirements analysis performed under contract by an FCC contractor, Computech; (3) obtained and reviewed the Statement of Work for implementation of agreed upon results of requirements analysis to be performed under contract by Intermetrics; (4) obtained a current listing of all AM/FM stations in the Broadcast Application Processing System (BAPS); (5) obtained a listing of fees paid by AM/FM stations during FY 1996; and (6) met with MMB employees.

The results of the survey reflected that the licensing system maintained by MMB was in the process of being modified by MMB personnel in concert with a contractor. Reportedly, the legitimacy of licensing data will be validated within the scope of the work which will be performed within MMB. A determination was made by the OIG to await the results of systems development and implementation before expending further audit effort in this area.

5. MEMORANDUM REPORT: ITS INCORPORATED

The report was issued July, 1997.

On July 26, 1996, the FCC entered into a contract with ITS Incorporated (FCC 96-11) to provide the public with copies of licenses, lists of licenses and all manner of other FCC documents which are not restricted from public access. In response to allegations of contractual violations of terms related to ITS billing of FCC customers, the OIG performed an analysis of the contract and related deliverables to the public. While the allegations of contractual service violations were not fully supported, it was identified during the performance of the work that, under contractual provisions, the contractor was to remit to the Government approximately \$20,000 for consolidated lease space at FCC facilities per annum. No record of payments had been identified nor had a mechanism been established to facilitate the payment which would be directed to the General Services Administration (GSA).

On October 7, 1997, the OIG was notified by the Chief, Acquisitions Branch, that rental payment from ITS Incorporated for \$20,000 had been received. The OIG is continuing to monitor the performance of ITS.

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 program and oversight responsibilities. All such 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.

ACTIVITY DURING THIS PERIOD

On November 8, 1997, Robert G. Andary, who had served as the Counsel to the Inspector General and AIGI, left the Commission to assume the position of IG at the Government Printing Office. Pending Mr. Andary's replacement, investigative assignments were discharged by the audit staff in concert with Federal, State and local government officials. Experience gained by the auditors from having previously served as members of multi-disciplinary investigative teams proved invaluable in their seamless assumption of primary investigative duties and responsibilities.

This reporting period saw the close of the largest investigative effort conducted to date by this office. The joint FCC OIG, FBI and DOJ investigation culminated with two parties external to the Commission pleading guilty to a multi-count felony indictment. Within the FCC, the OIG issued a related administrative investigative report which defined violations of applicable sections of the Code of Federal Regulations by four employees who served on the FCC Spectrum

Auction Task Force. Additionally, these employees exercised questionable judgment and conduct which facilitated the commission of illicit activity against the FCC.

Two additional major investigations in the area of Commission employees accessing sexually explicit material via the Internet were closed during the reporting period. One of the two cases involves FCC employees' utilization of the FCC's Internet access capability to access sites containing pornographic material. The Chairman and responsible Bureau Chiefs were provided with the respective employee names for appropriate disciplinary action.

The second case dealt with an FCC employee at the Columbia, Maryland Field Office who used an FCC computer to download child pornography. This case was accepted upon referral by this office, by Maryland State and local officials. The subject employee resigned from the Commission effective October 31, 1997. On January 28, 1998, the former employee was sentenced to probation on the charge of possession of child pornography. Additional charges are currently pending.

The OIG was also active in investigating or referring to appropriate authorities a number of matters related to the planned move of the FCC headquarters to the Portals.

SIGNIFICANT INVESTIGATIVE CASE SUMMARIES

•In a matter referred to the U.S. Attorney for the District of Columbia and jointly investigated by the OIG and the FBI, a former FCC subcontractor and accomplice pled guilty to Federal offenses. The guilty pleas were entered in U.S. District Court in Washington D.C. on August 25, 1997. Leon Clements II (Clements) pled guilty to Mail Fraud and subscribing to a false tax return. Virginia Stephens pled guilty to aiding and assisting the subscribing to a false tax return. During this reporting period, OIG auditors continued to support the investigation by developing information to assist the court in establishing restitution requirements for sentencing. The prime subject of the investigation, Clements, an FCC subcontractor, was sentenced on February 10, 1998, to serve 20 months imprisonment, make additional restitution in the amount of \$40,000 to the FCC (\$20,000 had previously been received), and assume a tax liability to the Internal Revenue Service (IRS) of approximately \$168,000. Also, he was suspended from performing work for the Federal government pending permanent debarment. His co-conspirator, Virginia Stephens was sentenced on February 27, 1998, to five years probation and ordered to make restitution to the IRS of \$21,348. She was likewise suspended from performing work for the Federal government pending permanent debarment.

The subject fraud was orchestrated by Clements while employed as the Management Information System Director at Tradewinds International, an FCC auction contractor. In conjunction with investigative activity, OIG auditors performed an incurred cost audit and questioned costs of

\$160,545. Tradewinds International reimbursed the FCC for \$100,545. The court held Clements personally responsible for repaying the balance of questioned costs totaling \$60,000. Of this amount, Clements has paid the FCC \$20,000 and is under court order to repay the remaining \$40,000.

•On March 25, 1998, the OIG issued Investigative Report 96-2-A-04 to the Chairman. The investigation identified that specific FCC employees assigned to the Spectrum Auctions Task Force exercised poor judgment and violated provisions of the Federal Acquisitions Regulations (FAR), including the basic standards of conduct (FAR Subpart 3.101) and Title 5 Code of Federal Regulations (CFR) Part 2635 Standards of Ethical Conduct for Employees of the Executive Branch. This administrative investigation was initiated based upon information provided to the OIG of an improper relationship between an FCC employee assigned to the Wireless Telecommunications Bureau (WTB) and a WTB subcontractor, Leon Clements II (Clements). The OIG identified that Clements had a prior felony conviction in July 1992, for defrauding a law firm of approximately \$250,000. Subsequent to his conviction and sentencing, Clements violated terms of his probation and restitution requirements and was sentenced to two years incarceration, all but six months suspended, at the D.C. maximum security prison in Lorton, Virginia. FCC employees who became aware in their official capacity of (1) the improper relationship between a WTB employee and contract employee, and (2) that Clements was a convicted felon, did not notify their supervisors or the OIG, nor take appropriate measures to protect the interests of the government. Action taken by the OIG resulted in cost recoveries and withholding of invoice payments totaling \$249,966.84, to date. Copies of the report were provided to the Chief, WTB and Managing Director for appropriate disciplinary action.

•On March 31, 1998, the OIG issued Investigative Report No 97-4-C-08 to the Chairman. The report summarized the results of the investigation of Commission employees' utilization of the FCC's Internet access capability to access sites containing pornographic material. The investigation was initiated in response to a complaint that pornography was being downloaded in violation of 18 U.S.C. § 2251, entitled "Sexual Exploitation and Other Abuse of Children." Although the investigation determined that many of the sites accessed by subject employees contained or advertised (in the case of pay sites) material which would be classified as "child pornography" as defined by Federal law, no evidence was developed that employees were downloading this material. However, the investigation did identify that individual employees were using the Internet during their official tour of duty to "surf" pornographic sites and, in some cases, download and store pornographic images and textual depictions of pornographic events on Commission computers. Such conduct is in violation of Title 5 of the Code of Federal Regulations (CFR). Specifically, this conduct violates 5 CFR § 2635.704, entitled "Use of Government property" and 5 CFR § 2635.705, entitled "Use of official time". Additionally, use of the FCC's internet access capability to "surf" pornographic web sites violates FCC regulations as defined in Directive FCCINST 1479.1, entitled "FCC Computer Security

Program". The Chairman, Chief of Staff and responsible Bureau Chiefs were provided the names of the violating employees and pertinent information to use as a basis for taking appropriate administrative disciplinary action.

•On September 13, 1996, the OIG received an allegation that a watch officer at the Commission's Columbia Operation Center was downloading child pornography onto a Commission workstation using a private Internet account. Working with Federal and local law enforcement, OIG investigators monitored the activity and recovered materials from the employee's workstation after business hours. This material was presented to local law enforcement in Baltimore County, Maryland, and on February 17, 1997, a search warrant was executed at the subjects home in Baltimore County, Maryland. During that search, numerous computers, peripherals, and computer files were seized. On March 6, 1997, a search warrant was executed on the subjects private file drawer at the Columbia Operations Center. During that search, twenty-three (23) diskettes were seized.

During the period the case was being prepared for presentation to local prosecutors, FCC officials placed the employee on administrative leave and temporarily suspended his security clearance, pending termination proceedings. On October 31, 1997, the employee resigned from the Commission.

On June 4, 1997, the employee was charged in the District Court of Maryland for Howard County under Article 27 § 419A of the Maryland Code of 1957, entitled "Child Pornography", and Article 27 § 419B, entitled "Possession of visual representations of persons under age 16 engaged in certain sexual acts." On January 28, 1998, the case was heard by Judge Neil Axel of the District Court of Maryland for Howard County. In that proceeding, the employee agreed not to dispute the government's case and was given probation before judgment on the charge of possession of child pornography, ordered to pay fines and costs totalling \$305, given supervised probation for eighteen months, and directed to continue counseling sessions and to remain on prescribed medications. On March 11, 1998, the employee was charged under the same statutes in Baltimore County, Maryland, for materials recovered from the employees residence. This case is scheduled for trial in June, 1998.

•On October 27, 1997, the OIG referred a case to the Federal Protective Service (FPS) related to the theft by a former FCC co-op student of five (5) Equalnet calling cards which had been mailed to the FCC along with a letter of complaint. Investigative analysis disclosed that the co-op student, had used the stolen calling cards to make personal phone calls in the amount of \$436.32. Additionally, the former co-op student had violated Directive FCCINST 1185.2, entitled "Authorized Use of Government Telephone Systems" by using an FCC telephone for personal calls not related to official FCC business amounting to \$723.93. On January 5, 1998, an arrest warrant was issued. Subsequently, the subject agreed to make full restitution to both the FCC

and Equalnet in April 1998, in lieu of being arrested. Upon remittance of full payment totaling \$1160.25, the case will be closed.

- An investigation (OIG No. 98-2-C-04) was initiated based upon referral from the Commission Secretary of an apparent attempt by an FCC employee to distribute the Daily Circulation report dated March 4, 1998, outside of the FCC. After a thorough investigation, the OIG did not identify inappropriate activity on the part of any FCC employee. Additionally, there is no indication that the subject report, inappropriately addressed to an individual external to the Commission, actually left the custody of the FCC. The OIG noted that the Daily Circulation Report had no markings to indicate that the report was for official use only. Therefore, to mitigate the potential for future inadvertent mishandling of the report, the Commission Secretary was advised to stamp each one in the future "For Official Use Only". This practice has been implemented.

- An investigation referred to the Public Integrity Section of the Department of Justice Criminal Division in December 1994 remains open pending final action by prosecutors. The matter involves a potential post-employment conflict of interest violation by a former FCC official.

- In response to a request from the House Committee on Transportation and Infrastructure dated February 18, 1998, the OIG is currently engaged in investigative activity related to the Portals development project. The Committee has requested that the FCC OIG examine (1) the leak of a security report prepared by a Commission contractor to the media and, (2) efforts on the part of the current landlord to enlist and empower FCC staff to derail the planned consolidation of the FCC to the Portals. Additionally, the FCC OIG has referred allegations to the OIG at the General Services Administration (GSA), of potential improper procurement practices to include lack of adequate support for change orders related to the Portals contract.

HOTLINE CALLS

During this reporting period, the OIG Hotline Technician received eighty-eight (88) 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.

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.

ACTIVITY DURING THIS PERIOD

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

MANAGEMENT AND ADMINISTRATION

During the six-month reporting period covered by this report, the FCC OIG has continued to dedicate staff towards assisting the agency in areas in which our expertise can provide benefit. This emphasis is perhaps best reflected in two major projects, the Field Inspection Program (FIP) and the Collections System Steering Committee.

Field Inspection Program (FIP)

On October 28, 1997, the OIG issued the Final Summary Field Inspection Report (FIP-97-8) to the Chairman and Chief, Compliance and Information Bureau (CIB). The FIP is a program by which OIG staff travel to field offices and resident agent locations to perform comprehensive inspections. The inspection team visited the following locations:

- South Central Regional Director- Kansas City, Missouri
- Western Regional Director- San Francisco, California
- Kansas City Field Office
- Tampa Field Office
- San Francisco Field Office
- San Diego Field Office
- Miami Resident Agents
- Norfolk Resident Agents
- Houston Resident Agents

Prior to OIG traveling to the field, detailed interviews were conducted with personnel within the CIB, to whom field personnel report. Additional meetings were held with senior officials from most headquarters bureaus and offices. The focus of these interviews was the identification as to the services that CIB was performing for other bureaus and offices and the connectivity between the field and headquarters.

At each location a detailed checklist, developed to assess compliance with Federal government and internal FCC rules and regulations, was completed. The team conducted interviews with FCC staff and persons/organizations serviced by the field (to include Federal and State agencies and entities and Congressman Pickett of the Second District of Virginia) to obtain feedback on operational effectiveness and efficiency and identify impediments which may exist to the realization of optimal performance. The FIP team also searched for the best practices which may be transferable from one field location to another. Likewise, the inspection team sought to

identify impediments to effective and efficient operations of field personnel.

Our findings indicated that a lack of connectivity existed between the field and CIB headquarters, and between CIB and other bureaus and offices. Field personnel spoke of the need to integrate themselves and their mission with the rest of the FCC and see this as their best defense against further CIB retrenchment. Yet, bureau and office managers interviewed generally had a very limited perception as to what CIB does and what they are capable of doing. Furthermore, they were not familiar with efforts on the part of CIB headquarters to develop such requirements. The report also noted that CIB personnel spoke of meager financial resources in terms of equipment, travel and training, and that their budget would to an impartial observer appear to support this perception.

At the conclusion of field work, a meeting was held with the Chief, CIB and a number of his senior managers. There was general concurrence with the findings of the Inspection Team. It was noted that CIB had performed an internal analysis and identified many of the same issues as the OIG. A copy of CIB's Summary Report entitled "Challenges For Change - Forging An Enhanced Direction" was incorporated as an Attachment to the OIG report.

Collection Systems Steering Committee

During the current reporting period, an OIG representative continued to chair the Collections Steering Committee. The mission of the Collection System Steering Committee is to (1) conduct an objective assessment of the Commission's collection system; and (2) advise management on alternative courses of corrective action.

As addressed in our previous semiannual report, in May 1997, the OIG initiated a special review of the Commission's collection system. The Collection System had originally been developed to meet requirements related to fee collections. The functionality of this system was significantly impacted upon by Congress with the passage of the Omnibus Budget Reconciliation Act of 1993. In compliance with the Act, the FCC initiated the auctioning off of designated spectrum. FCC auctions have resulted to date, in the award of more than 4,300 licenses to auction winners netting bids of \$23 billion with about \$12 billion of this amount collected for the U.S. Treasury.

During initial briefings with senior officials within the Office of the Managing Director (OMD) and Wireless Telecommunications Bureau (WTB), the OIG special review team became aware of an on-going effort by WTB and OMD to "engage a Contractor with government financial management consulting and system design expertise to evaluate the current Collections System with respect to the FCC's financial accounting requirements and operational management and data requirements of the operating bureaus with emphasis on the Auctions Division of the Wireless Telecommunications Bureau (WTB)." Using the results of the analysis, the contractor

was to "make a recommendation to the FCC to either modify the current system or create a totally new collection system." Recognizing that, with some exception, the proposed task order duplicated significant portions of our on-going effort, the Inspector General met with the Deputy Bureau Chief - WTB and the Associate Managing Director - Operations, and agreed to modify our project to incorporate those elements of the proposed project which were not being addressed. In addition, recognizing the capabilities of the OIG, a determination was made by management to establish a high level steering committee, facilitated by a member of the OIG.

On October 1, 1997, a briefing was held for senior management in which the Collection System Steering Committee reported upon the preliminary results of the collection system project. In that briefing, it was reported that the current collection system does not meet Commission requirements and that the system cannot be upgraded to meet current and projected requirements. The Committee further reported the results of their assessment of commercially available products and provided recommendations for the identification, selection, and implementation of an off-the-shelf system. Since the October 1, 1997, briefing, the Committee has been working to facilitate completion of the data integrity portion of the review, develop position descriptions and staff a team to select and implement a new collection system, and draft a final report summarizing the results of the project.

Ethics Reminder to FCC Employees

On March 23, 1998, the Inspector General requested that the Ethics Officer assigned to the Office of the General Counsel incorporate specified language in the Commission's Ethicsgram to reiterate that "the Inspector General relies on the full cooperation of all individuals and organizational entities within the Commission. Requests for information, interviews, documents, etc. should be met in a timely and open manner. Employees with knowledge of possible fraud, waste, abuse or wrongdoing within the Commission are expected to inform the Inspector General immediately...." On April 1, 1998, the aforementioned language was incorporated in the April Ethicsgram transmitted to all FCC employees.

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.

The potential violation of post-employment restrictions referred to the Public Integrity Section, Department of Justice, on December 5, 1994, is still pending a prosecutive decision by the Department.

In a matter referred to the U.S. Attorney for the District of Columbia and jointly investigated by the OIG and the FBI, two former FCC subcontractors pled guilty to Federal offenses. The guilty pleas were entered in U.S. District Court in Washington D.C. on August 25, 1997. Leon Clements II pled guilty to Mail Fraud and subscribing to a false tax return. Virginia Stephens pled guilty to aiding and assisting the subscribing to a false tax return. Restitution to the FCC was part of the plea agreements. Leon Clements II, was sentenced on February 10,

1998, to serve 20 months imprisonment, make additional restitution in the amount of \$40,000 to the FCC (\$20,000 had previously been received), assume a tax liability to the Internal Revenue Service (IRS) of approximately \$168,000 and, debarred from performing future work for the Federal government. His co-conspirator, Virginia Stephens was sentenced on February 27, 1998, to five years probation and ordered to pay restitution to the IRS of \$21,348. She was likewise debarred from performing future work for the Federal government.

On June 4, 1997, based upon OIG referral, an FCC employee was charged in the District Court of Maryland for Howard County under Article 27 § 419A of the Maryland Code of 1957, entitled "Child Pornography", and Article 27 § 419B, entitled "Possession of visual representations of persons under age 16 engaged in certain sexual acts." On January 28, 1998, the case was heard by Judge Neil Axel of the District Court of Maryland for Howard County. In that proceeding, the employee was given probation before judgment on the charge of possession of child pornography, ordered to pay fines and costs totalling \$305, given supervised probation for eighteen months, and directed to continue counseling sessions and to remain on prescribed medications. On March 11, 1998, the employee was charged under the same statutes in Baltimore County Maryland for materials recovered from the employee's residence on February 17, 1997. This case is scheduled for trial on June 18, 1998.

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 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 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.*

One audit report meets this criteria. The Report on Incurred Costs for Fiscal Years 1995, 1996 and Short Year 1997 (OIG 97-18) was issued in September, 1997. This incurred cost audit identified questioned costs of \$265,180. The Chief, Acquisitions Branch advised the OIG that the contractor has indicated an intent to contest the findings contained in the subject report. Her office will be meeting with the Office of General Counsel to discuss the FCC's recourse should the contractor adopt this position.

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.