



Federal Communications Commission
Washington

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: October 31, 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 September 30, 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 Commission staff. Our efforts in this area have been summarized in a special section of this report entitled "Universal Service Fund" and have been further substantiated with the publication of our first special review report.

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

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

forwarded to management for action.

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

H. Walker Feaster, III
Inspector General

Enclosure

cc: Chief of Staff
Managing Director

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Introduction

The Federal Communications Commission (FCC) is an independent regulatory agency 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.

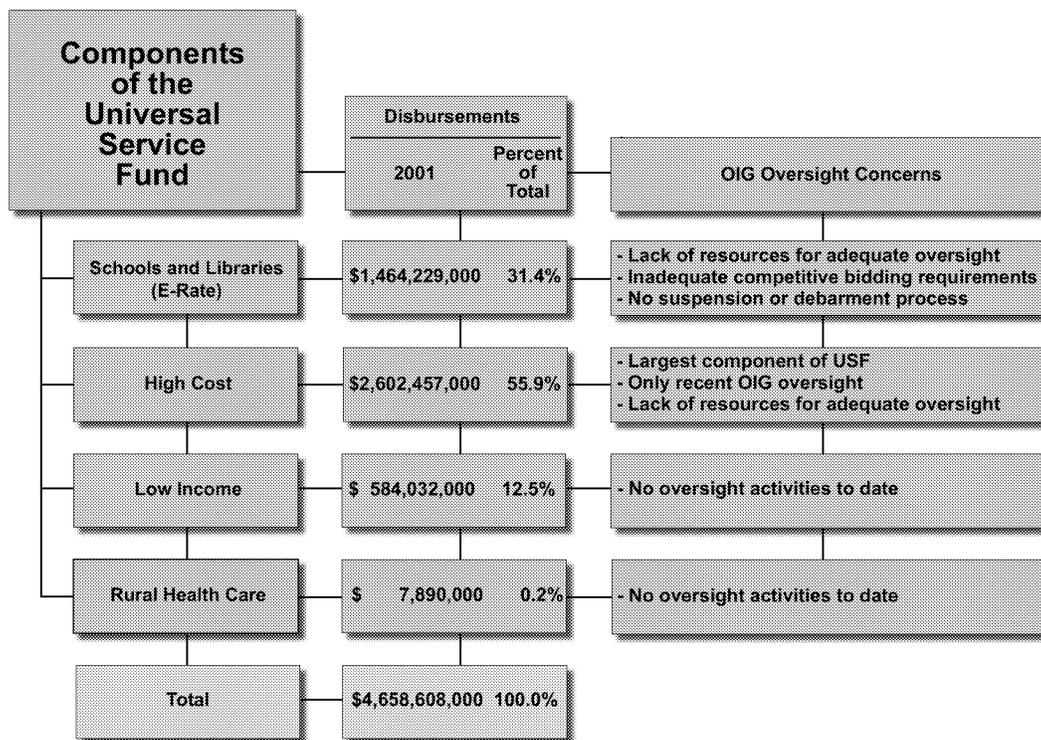
Michael Powell was designated as Chairman on January 22, 2001. Kathleen Q. Abernathy, Michael J. Copps, and Kevin J. Martin serve as Commissioners. One seat is vacant. The majority of FCC employees are located in Washington, D.C. FCC field offices and resident agents are located throughout the United 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 April 1, 2002 through September 30, 2002.

Universal Service Fund

Beginning with our last semi-annual report, we have included a section on oversight of the Universal Service Fund (USF)¹. We decided that it was necessary to highlight our efforts to provide oversight of the USF to ensure that report recipients and other constituents clearly understood our concerns about this program. We also used that section of the semi-annual report to discuss our specific efforts to provide oversight and to identify obstacles to the effective implementation of our oversight program. During this semi-annual reporting period, the Office of Inspector General has continued to devote considerable resources to oversight of the USF. I am pleased to report that we have continued to make progress. However, most of the obstacles and concerns we identified in our last semi-annual report still exist. The following graphic illustrates the components of the USF, status of oversight implementation and areas where we have specific concerns:



¹ The USF is generated through contributions from all telecommunications companies in the United States, including local and long distance phone companies, wireless and paging companies and pay phone providers. The Universal Service Administrative Company (USAC) administers the USF under regulations promulgated by the Federal Communications Commission (FCC).

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Oversight of the E-Rate Program

In the last report, we related our efforts to establish an oversight program for the USF. We explained that, due to materiality and audit risk, we had 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” program². We reported that, during FY 2001, we worked with Commission representatives as well as with the Defense Contract Audit Agency (DCAA) and the Universal Service Administrative Company (USAC), to design a nation-wide audit program that will provide the Commission with programmatic insight into the compliance with rules and requirements on the part of E-Rate program beneficiaries and service providers. We designed our program around two corollary and complementary efforts. First, we would conduct reviews on a statistical sample of beneficiaries large enough to allow us to derive inferences regarding beneficiary compliance at the program level. Second, we would establish a process for vigorously investigating allegations of fraud, waste, and abuse in the program. We also reported that there were obstacles that were impeding our ability to implement our oversight program and that we were taking several actions to counteract the impact of these obstacles.

Although program oversight is clearly our responsibility, much of the oversight activity that has been performed to date has been performed under the direction of the Universal Service Administrative Company (USAC) as part of the oversight program that they have established.

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. The audit report disclosed weaknesses (ranging from regulatory non-compliances to computation errors) at many of the beneficiaries and approximately \$8 million in inappropriate funding disbursements. In addition, their audit resulted in a major investigation involving representatives from the Federal Bureau of Investigation (FBI) and Office of Inspector General. The matter has been referred as a civil false claims suit to the Department of Justice where it is under consideration. While USAC has implemented administrative procedures to address the findings of this report,

²The E-Rate 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 telecommunications and information services. Up to \$2.25 billion annually is available to provide eligible schools and libraries with discounts for authorized services.

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several fund recoveries are still in-process more than a year after the report was issued. Furthermore, several millions of dollars in inappropriate disbursements will not be recovered due to rule waivers and determinations of non-materiality. In calendar year 2001, USAC contracted with a public accounting firm to conduct audits at twenty-two (22) beneficiaries. The draft report for these audits, dated May 31, 2002, indicates there may be findings at nearly all locations including several millions of dollars in inappropriate disbursements and unsupported costs. In our last semi-annual report, we stated that the results of this audit were under review by USAC and WCB. We have been informed that the findings in this report are being discussed with the applicants and service providers and that USAC anticipates several findings will be resolved by these discussions. USAC anticipates issuing a final report before the end of calendar year 2002.

The oversight program established by USAC has provided useful information regarding beneficiary compliance with program rules and regulations. However, since the audits they contract for are not conducted in accordance with government auditing standards, these audits do not serve as a substitute for OIG oversight. Government Auditing Standards provide specific and stringent guidance on steps that must be taken for a government auditor to rely on work performed by other auditors. We have utilized the results of audits performed under contract to USAC for audit planning and risk assessments and we have teamed with USAC internal audit on some projects. We will continue to work with USAC when appropriate opportunities arise.

During this semi-annual reporting period, we started twenty-nine (29) audits of E-Rate beneficiaries and service providers. These audits were conducted using in-house resources and four (4) auditors that were obtained from WCB³ on a temporary detail. Initially, it was our plan to use available resources to conduct audits at a portion of those beneficiaries selected when we performed audit planning with DCAA. Unfortunately, during the course of the audit process, some of the resources were diverted to support an on-going criminal investigation. As a result, several of the audits that had been planned were cancelled. The audits that were initiated are still in process, but preliminary results indicate potential irregularities at many

³ Two of the auditors worked under a three-month detail ending March 3, 2002. Because of their involvement supporting an on-going criminal investigation, the detail was extended for two of the auditors through September 30, 2002. During the period when these auditors worked for the Office of Inspector General, the office from which the auditors were detailed was transferred to the Commission's Enforcement Bureau (EB).

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locations that may result in potential fund recoveries and further referrals for investigation. Presently, we have issued one report and three more reports are in review. We have cancelled 12 audits (four of which were converted into audit support for investigations). We will issue most of the remaining reports by the end of the calendar year. While many of our reports will have no or minimal findings, several will identify significant compliance issues and recommendations for funding recoveries.

In addition to the audit component of our oversight program, we have become increasingly involved in investigations of E-Rate recipients and service providers. In fact, we are currently tracking twenty-six (26) investigations, sixteen (16) of which were initiated during calendar year 2002. E-Rate cases being tracked range in dollar value from a \$4,000 false statement case to several cases in which the program has committed hundreds of millions of dollars of e-rate funding. Our level of involvement ranges from tracking and monitoring cases that are being investigated by state and local law enforcement to actively providing audit support to the FBI and DOJ investigators in the form of complete audits and limited scope/agreed upon procedures reviews.

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). In addition, we are pleased to report that, during the reporting period, we have established a working relationship with the Antitrust Division of the Department of Justice. As a result of our discussions with the Antitrust Division, the Antitrust Division has established a task force to conduct USF investigations comprised of attorneys in each of the Antitrust Division's seven (7) field offices and the National Criminal Office. The involvement of the Antitrust Division has resulted in renewed interest in numerous cases that had been referred to the FBI but were not being actively investigated. Unfortunately, the increased interest in these cases has resulted in an increased demand for OIG audit support. In fact, the amount of audit support has exacerbated our previously stated concern in the OIG about the availability of resources and other components of our USF oversight plan. These matters are addressed in more detail below when we discuss resource availability.

Our involvement in e-rate investigations has provided us with additional insight into program areas that require further evaluation through the audit process. For example, we noticed that many of the cases being referred for

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investigation alleged that no competitive procurement process took place and that, as a result, the cost of the goods and services was inflated. As we continued to examine this problem, we examined program controls designed to ensure a competitive process and ensure a fair price for goods and services. We recognized that the program establishes competitive bidding requirements by requiring applicants to follow the appropriate state and local procurement regulations. However, we also realized that these regulations do not apply to private schools. We have included audit procedures in our standard e-rate beneficiary audit program to evaluate the competitive procurement process and have identified this as a problem during several audits.

Another overarching concern that has arisen as a result of both our audits and investigative support and in response to numerous reviews conducted by USAC is the need for a suspension/debarment program to preclude chronically noncompliant participants from obtaining funding. It appears that, in the development of the USF's rules and requirements, the structure of the program did not foresee the need to suspend or debar beneficiaries or service providers from the program. The need for such procedures has been a topic of discussion for two years and is recognized by beneficiaries, service providers, and state administrators and coordinators, as well as OIG, WCB and USAC. We have been informed that WCB has tasked USAC to develop a suspension/debarment process that will be included in a future rulemaking. Since we consider this process to be a crucial tool to protect the integrity of the program, we will monitor this action closely.

Oversight of the High Cost Program

During the reporting period, we have begun to perform preliminary procedures to examine the high cost mechanism of the USF. This mechanism, also known as the "High Cost Program", was established to respond to a congressional mandate that all regions of the nation, including rural, insular and high cost areas, should have access to telecommunications services at rates that are readily comparable to rates charged for similar services in urban areas. High Cost support for calendar year 2001 totaled approximately \$2.5 billion. Approximately 1,200 incumbent carriers and 18 competitive carriers participate in the High Cost program. During FY 2003, we will perform an audit survey of this program to identify areas of

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risk, potential vulnerabilities, and compliance with program requirements and regulations. The results of the survey will be used to design an oversight program to ensure the High Cost Program is not subject to fraud, waste and abuse.

Obstacles to Implementation of USF Oversight

In our last report, we indicated that two obstacles were impeding our efforts to implement program oversight. These obstacles were (1) disagreement regarding the nature of the fund and (2) lack of resources to provide effective oversight.

We described in our last semi-annual report how confusion and disagreement regarding the nature of the USF was profoundly affecting program oversight. We noted that, although it is generally agreed and widely recognized that the universal service program is a federal program, there is considerably less agreement that the USF is “public money” or federal funds. We described how this issue was directly impeding an investigation, was complicating our relationship with federal law enforcement on numerous other cases that had been referred for investigations, and was creating difficulties in coordinating interagency and intergovernmental audit coverage. We are pleased to report that the Commission’s Office of General Counsel (OGC) has taken steps to resolve this matter with the Civil Division of the Department of Justice.

On June 3, 2002, the FCC General Counsel sent a letter to Robert McCallum, Jr., Assistant Attorney General in the Civil Division of the Department of Justice, requesting a meeting to discuss representation by the Department of Justice in litigation involving the USF. The letter stated that the Commission’s General Counsel would be urging the Department to (1) recognize the USF as federal funds; (2) represent the Commission and the United States in any litigation involving the USF; (3) authorize the use of the False Claims Act, 31 U.S.C. § 3729, in ongoing and future investigations and prosecutions involving the USF; (4) authorize the use of the criminal counterpart to the False Claims Act, 18 U.S.C. § 666, in ongoing and future investigations and prosecutions involving the USF; and (5) take or authorize any other litigation action necessary for the protection of the USF. We were not involved in subsequent discussions between the Commission and the Department, however, in July 2002, we were advised that the Department has agreed that it will represent the FCC and the United States’ interests in the Universal Service Fund in fraud cases under the False Claims Act and that we are free to refer all civil

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fraud cases. With respect to criminal fraud cases, we were advised to communicate to the criminal attorneys that the Civil Division sees no bar to such cases.

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 may create an appearance of the Commission 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 are pleased to report progress in this area. We are very close to finalizing a Memorandum of Understanding (MOU) with the Department of Interior OIG for them to provide oversight on a reimbursable basis of e-rate funding beneficiaries at the Bureau of Indian Affairs and Indian reservation schools. We have been working with the Commission's Office of General Counsel (OGC) and Interior OIG since February 2002 to craft an MOU that meets both of our needs. Unfortunately, the complexities of ensuring Interior OIG is comfortable with both the nature of the fund and their ability to receive payment for services from the USF, working out procedural concerns between both OIGs, and obtaining OGC validation that our MOU and methodology is legally sound has resulted in an extremely long gestation period for this MOU.

We have also identified the need for a contract with a public accounting firm based on the model provided by the MOU with Interior IG (i.e., a three-way agreement between the Commission, USAC, and a private entity). Toward this end we have initiated discussions 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 believe that this is our best option for obtaining access to audit resources, however, we are concerned that this solution will not solve our short-term resource problems particularly given the complexities involved in establishing the MOU with Interior OIG and the added complexities of

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structuring a contract that includes a federal agency and two private (nongovernmental) parties and incorporating Federal Acquisition Regulations.

We have included \$2 million for USF oversight in our fiscal year 2004 budget request. However, absent any further funding or resources being available for fiscal 2003, we will likely be unable to accomplish much oversight beyond investigative support and support for the audits to be performed by the Department of Interior OIG.

In our last semi-annual report, we stated that oversight of the USF program was severely impacting our ability to perform other planned program audit work and that it was likely to continue to do so for the foreseeable future. We estimated at that time that the audit portion of our nation-wide Schools and Libraries program would require approximately fifteen (15) full-time positions. During this reporting period, we did make some progress regarding resources. Most significantly, we were able to obtain and fill a position for a Senior Auditor on the staff of the Office of Inspector General. The addition of this position, under the Director of Program Audits, increases the number of Senior Auditors dedicated to oversight of USF to two (2) full-time positions. However, this staffing is hard pressed to support our current workload and our recent expansion into oversight of High Cost.

Conclusion

In conclusion, we would like to emphasize that we are addressing oversight of the Universal Service Fund on all fronts and will continue to do so. We believe we have made some progress toward our goals. However, we have numerous concerns. The audits we have managed to conduct have been "ad hoc" and we are unable to rely on audits that have been conducted by other parties for adequate program oversight. Meanwhile, the results of audits and the allegations under investigation lead us to believe the program is subject to unacceptably high risk of malfeasance through noncompliance and program weaknesses. We are also not satisfied with the pace at which readily identifiable program improvements - such as improvements in the competitive process, suspension/debarment procedures, and utilizing the fund to pay for its oversight - are being addressed. My staff is trying to concurrently work all of these issues and meet a growing need for real-time audit support to investigations. Until such time as

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resources and funding are available to provide adequate oversight for the USF program, we are unable to give the Chairman, Congress and the public any level of assurance that the program is protected from fraud, waste and abuse.

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.**

Fiscal Year 2001 Consolidated Financial Statement Audit

This audit was 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 Financial Report of the United States Government. 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 was 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.

Audits

On April 30, 2002, the OIG issued a qualified opinion on FCC's FY 2001 Consolidated Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Financing, and Combined Statement of Budgetary Resources and an unqualified opinion on the Statement of Custodial Activity. CG-LLP opined, except for the effects of such adjustments to the FY 2001 Consolidated Balance Sheet, and the related Consolidated Statements of Net Cost, Changes in Net Position, and Financing, and the Combined Statement of Budgetary Resources, if any, as might have been necessary had we been able to perform adequate audit procedures on the reporting entities, amounts and programs costs allocation referred to in the explanatory paragraph, the Principal Statements and related notes referred to above present fairly, in all material respects, the financial position of the FCC as of September 30, 2001 and 2000, and its net cost; changes in net position; budgetary resources; reconciliation of net cost to budgetary obligations; and custodial activity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In performing internal control testing of controls necessary to achieve the objectives in OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*, the OIG identified matters relating to significant deficiencies in the design or operation of FCC's internal control that, in its judgment, could adversely affect FCC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

OIG identified material weaknesses in the areas of:

- Financial Reporting
- Cost Accounting System
- Universal Service Fund Financial Reporting
- Loans Receivable and Related Accounts
- Information Technology

In addition, OIG identified additional reportable conditions not considered to be material weaknesses.

FCC management is responsible for complying with laws and regulations applicable to the agency. The OIG's reports disclosed instances of noncompliance with specific laws and regulations required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02 as follows:

Audits

- Chief Financial Officer's Act of 1990
- Debt Collection Improvement Act of 1996
- Government Performance and Results Act of 1993
- Federal Financial Management Improvement Act of 1996

FCC management concurred with all recommendations and is taking steps to implement the recommendations.

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*.

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.

Audits

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

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.

1. Report on Audit of Labor Charging and Timekeeping Practices of Ernst & Young, LLP (Report No. 02-AUD-09-18), September 11, 2002

The objective of this review was to evaluate the labor charging and timekeeping practices of Ernst & Young and its subcontractor. It was determined that employees were at work, they were performing in their assigned Job classifications, and their time was charged to the appropriate jobs. No significant deficiencies in the contractor's timekeeping or labor system were found.

2. Report on Audit of Labor Charging and Timekeeping Practices of Vistronix, Inc. (Report No. 02-AUD-09-17), September 11, 2002

The objective of this review was to evaluate the labor charging and timekeeping practices of Vistronix. The same deficiencies that were found in the previous review in April, 2001 were found once again. They were:

- Hours were recorded in advance,
- There was no work authorization document, and
- Employees were unaware of the FCC OIG Hotline.

The findings were discussed with the contractor's Chief Financial Officer who agreed to take the necessary actions to resolve the deficiencies.

Audits

3. Report on Audit of Labor Charging and Timekeeping Practices of Computech, Inc. (Report No. 02-AUD-09-19), September 11, 2002

The objective of this audit was to evaluate the labor charging and timekeeping practices of Computech. The same type of deficiency, employees not completing their timesheets on a daily basis, that was found in the previous review in January, 2002 was found again.

The finding was discussed with Computech management who stated that appropriate disciplinary action was taken against the four employees involved.

III. 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 Special Review of Employee Use of FCC Travel Cards (Report No. 01-AUD-10-41), May 8, 2002

The objective of this review was to examine FCC employee usage of Government travel cards and evaluate the Commission's program for ensuring employee compliance with travel card policies and procedures.

We found that, in general, FCC employees used their travel cards in compliance with the Commission's travel card policies and procedures during FY 2001. In that same year we found that less than 1% of the Commission's approximately 900 cardholders had their travel cards revoked by Bank of America for not paying their bills.

We also found a few instances of employees not using their card according to existing policies and procedures. As a result, we made four recommendations designed to strengthen the internal controls, formalize policies for evaluating inappropriate behavior, provide additional guidance to cardholders, and clarify procedures governing employee travel under another agency's travel authority. The Commission accepted our recommendations and is taking steps to implement all of them.

Audits

2. Report on Audit of the Automated Auction System (AAS) (Report No. 02-AUD-02-08), June 28, 2002

The AAS is a major application system that processes all of the Commission's spectrum auctions transactions. It is the system that the Commission uses to facilitate the sale of unused spectrum to the public and includes a web-based component utilized by bidders to register for auctions and place bids.

The objective of the audit was to determine the extent and effectiveness of application controls for the AAS. It was performed with the intent of identifying weaknesses that could result in external as well as internal exploitation.

Our review yielded the following positive security observations:

- Security plans for the AAS and the Auctions network, including elements recommended by OMB-130 for major applications, have been developed and implemented.
- There appears to be adequate segregation of duties for AAS administration, programming, and testing.
- Controls related to the completeness, authorization and accuracy of data during the Auction Definition stage appear adequate.

We also identified areas of improvement for the Wireless Telecommunication Bureau's (WTB) security controls over the AAS. Specifically, we identified 14 findings in the areas of management, operational, and technical controls. We rated one as high risk, ten as medium risk, two as low risk, and one with both high-risk and medium-risk components.

We made recommendations intended to correct the deficiencies identified; they should effectively minimize the risk of occurrence of future security-related events. While there was some disagreement by WTB over the risk classification, they did concur with the recommendations made for all 14 findings. WTB outlined the corrective taken and/or a milestone schedule for implementation of corrective action.

Audits

3. Report on Special Review of FCC Fleet Card Program (Report No. 01-AUD-10-42), September 11, 2002

The objective of this review was to examine FCC employee usage of Government fleet cards and evaluate the Commission's program for ensuring employee compliance with fleet card policies and procedures.

We found that Commission employees used FCC fleet cards in compliance with the Commission's fleet card policies and procedures during FY 2001 and found those policies and procedures to be adequate.

We did, however, make a recommendation that the Commission incorporate its fleet card policies and procedures into its vehicle operations manual to ensure consistency between the two programs. The Commission agreed to do so.

4. Report on Special Review of the E-rate Program at Enoch Pratt Free Library (Report No. 02-AUD-02-04-010), September 11, 2002

The objective of this review was to assess the beneficiary's compliance with the E-rate program requirements and to identify areas in which to improve the program. The Enoch Pratt Free Library is a public library system in Baltimore, Maryland. The review encompassed the period of June 30, 1999 to July 1, 2002 (funding year two of the program) and evaluated the expenditure of \$2,678,895 in funding commitments. The review found the beneficiary was compliant with program requirements and found no material control weaknesses relative to the program.

5. FY 2002 Government Information Security Reform Act (GISRA) Independent Evaluation, September 16, 2002

The Government Information Security Reform Act ("GISRA" or "the Security Act") which became effective on November 30, 2000, applies to all Federal agencies. A key provision requires that the Inspector General or an independent evaluator designated by him, perform an annual evaluation of the Commission's information security program and practices. For this purpose the IG engaged KPMG, LLP to conduct the independent evaluation of the FCC's information security program and practices for FY 2002.

Audits

The purpose of the evaluation was to review the Commission's security program including, but not limited to, security policies, security architecture, business continuity, security capital planning, critical infrastructure, and security program planning and management. Our objective was to evaluate the effectiveness of the Commission's information security program by assessing the risk for each component of the program.

During the prior year's independent evaluation, security deficiencies were reported and recommendations made to the agency. As required by OMB, the Commission has developed and reported on a quarterly basis its plan of actions and milestones for each finding. FCC management is effectively monitoring and tracking the progress of the corrective actions planned for each of the prior year's findings. We identified that several of the FY 2001 findings have been corrected and that corrective action has been defined and/or enacted for all others.

While the Commission has implemented numerous positive controls over its computer resources, we identified areas of improvement for management, operational, and technical controls. Implementing corrective areas for identified weaknesses will increase the effectiveness of the agency's information security program and practices.

The final report of detailed findings and recommendations resulting from the FY 2002 GISRA independent evaluation is expected to be completed and issued by November 30, 2002. A summary of that final report will be included in the next semi-annual report.

Work-In-Process– Reports on the following audits were not completed as of the date of publication of this report:

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 affect Commission operations.

Audits

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 ensure that appropriate corrective actions have been implemented.

Follow-Up Special Review of Web Page Accessibility

The objective 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.

Special Review of Workplace Violence: Data Collection

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

Audit of the Commission's Transit Subsidy Program

This audit was initiated at the request of the Office of the Managing Director. The objective of the audit is to evaluate the Commission's Transit Subsidy Program to ensure that program controls are adequate to detect and prevent fraud, waste, and abuse.

Audits

Audit of the Commission's Implementation of GPRA

The objective of this audit is to identify measures taken to address the findings in our initial report (March 26, 1999) and to independently review and assess the Commission's Strategic Plan and initial Annual Performance Report.

Management

Specialized Training and Activities

Thomas Bennett and Walt Opaska participate in the Electronic Crimes Task Force hosted by the United States Secret Service.

The Office was represented at the following conferences:

- The Association of Government Accountants Professional Development Conference
- 12th Annual Government Financial Management Conference hosted by the U.S. Department of the Treasury
- 14th Biennial Forum of Government Auditors hosted by the Intergovernmental Audit Forum
- Association of Directors of Investigations Annual Conference

Thomas Holleran serves as Liaison to the Executive Council of Integrity and Efficiency (ECIE) and is a member of the Semiannual Report Working Group.

Public Recognition

Thomas C. Cline, Director of Program Audits, will be recognized in October for outstanding achievement during this period. He will receive an Award for Excellence—Evaluation for “outstanding effort in designing and directing a comprehensive risk assessment of the Federal Communications Commission’s Workplace Violence Prevention Program.”

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. However, OIG reports containing sensitive or proprietary information will be restricted to specific individuals and organizations with a need to know the detailed information.

INVESTIGATIONS

OVERVIEW

Investigative matters pursued by this office are generally initiated as a result of allegations received through the OIG hotline or from FCC managers and employees who contact the OIG directly. Investigations may also be predicated upon audit or inspection findings of fraud, waste, abuse, corruption, or mismanagement by FCC employees, contractors, and/or subcontractors. Upon receipt of an allegation of an administrative or criminal violation, the OIG usually conducts a preliminary inquiry to determine if an investigation is warranted. Investigations may involve possible violations of regulations regarding employee responsibilities and conduct, federal criminal law, and other regulations and statutes pertaining to the activities of the Commission. Investigative findings may lead to criminal or civil prosecution, or administrative action.

The OIG also receives complaints from the general public, both private citizens and commercial enterprises, about the manner in which the FCC executes its programs and oversight responsibilities. All complaints are examined to determine whether there is any basis for OIG audit or investigative action. If nothing within the jurisdiction of the OIG is alleged, the complaint is usually referred to the appropriate FCC bureau or office for response directly to the complainant. 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

Twenty-four cases were pending from the prior period. Twenty-one of those cases involve the Commission's Universal Service Fund (USF) program and have been referred to the Federal Bureau of investigation (FBI) and/or the Department of Justice and the investigations are ongoing. An additional nine complaints were received during the current reporting period. Over the last six months three cases have been closed. A total of thirty cases are still pending, twenty-six of which relate to the USF program. The OIG continues to monitor and coordinate activities regarding those twenty-six. Investigations with respect to the other four non-USF pending cases are ongoing.

INVESTIGATIONS

STATISTICS

Cases pending as of March 31, 2002	24
New cases	9
Cases closed	3
Cases pending as of September 30, 2002	30

SIGNIFICANT INVESTIGATIVE CASE SUMMARIES

The OIG has initiated an inquiry into allegations of misconduct by a Commission employee with respect to the processing of complaints against a ham radio operator. The inquiry is currently pending.

The OIG has initiated an investigation into allegations of the possible release of non-public documents related to the Commission's consideration of ultra-wideband. Specifically, it was alleged that a marked-up version of a pre-decisional report and order prepared by Commission staff, which had been circulated among federal agencies for comment had been improperly disclosed to an individual affiliated with a private telecommunications company after the marked up version had been transmitted to the Commission. The individual with the telecommunications company had purportedly claimed to possess the document. The individual denied possessing the document and the OIG was unable to conclusively determine that he possessed the report and order or if the document had been released. However, through investigation, it was determined that correspondence between two federal agency officials, other than Commission officials, which made reference to the contents of the report and order, was quoted in a trade publication. The article citing the correspondence, which also discussed agency concerns with respect to proposals contained in the report and order, was published before the marked-up version of the report and order was made available to the Commission. Based on the information derived, the OIG was unable to find sufficient evidence to establish that the source of the information was from within the Commission and the matter was closed.

INVESTIGATIONS

The OIG initiated an inquiry into allegations that a citizen's Freedom of Information (FOIA) request had been improperly processed. Specifically, it was alleged that a Commission employee had acted improperly by notifying the citizen that the Commission was not in possession of the requested information. Upon review, the OIG determined that the response was correct. Accordingly, the OIG found no evidence of employee misconduct and the matter has been closed.

The OIG initiated an investigation into allegations of the possible release of non-public information related to the Commission's consideration of spectrum cap limitations. Specifically, it was alleged that staff recommendations and subsequent modifications contained in draft documents was released to persons outside of the Commission, including members of the press. The investigation is currently pending.

The OIG continues to coordinate and provide assistance to law enforcement entities with respect to investigations pertaining to infractions within the Universal Service Fund program of the Commission.

Additionally, significant legal counsel and assistance, including the drafting of appropriate legal documents, has been provided to the OIG concerning the USF program.

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.

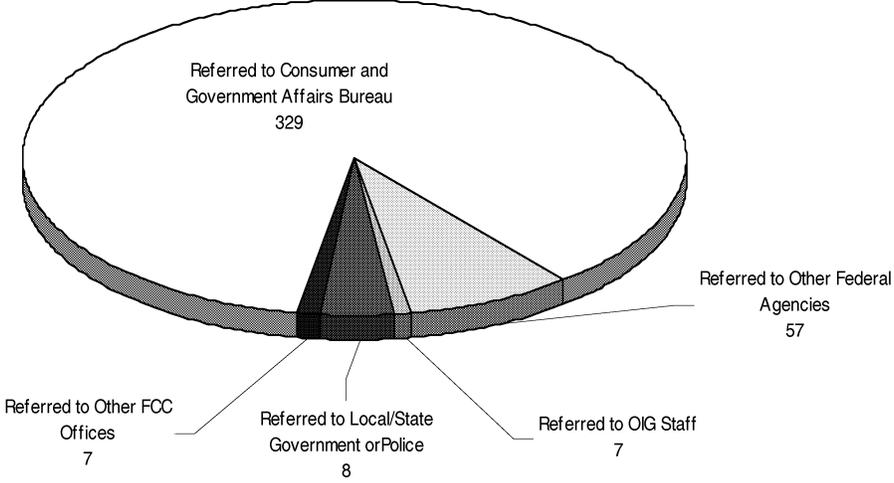
IG HOTLINE

HOTLINE CALLS

During this reporting period, the OIG Hotline Technician received 408 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 April 1st and September 30
Total 408 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

You are always welcome to write or visit.



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

SPECIFIC REPORTING REQUIREMENTS of the INSPECTOR GENERAL ACT

The following summarizes the Office of Inspector General response to the 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 two through ten.

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 two through ten.

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 Table I to this report.

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

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

10. A summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of the reasons 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.

OIG Audit Reports With Questioned Costs

Table I.

Inspector General Reports With Questioned Costs	Number of Re- ports	Ques- tioned Costs	Unsup- ported Costs
A. For which no management decision has been made by the commencement of the reporting period.	4	\$5,167,888	\$278,701
B. Which were issued during the reporting period	-	-	-
Subtotals (A + B)	4	\$5,167,888	\$278, 701
C. For which a management decision was made during the reporting period.	-	-	-
(i) Dollar value of disallowed costs	3	\$5,167,888	25,248
(ii) Dollar value of costs allowed	-	-	-
D. For which no management decision has been made by the end of the reporting period.	1	-	\$253,453
Reports for which no management decision was made within six months of issuance.	1	-	\$253,453

**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.	-	-