

TABLE OF CONTENTS

I.	INTRODUCTION.....	2
II.	AUDITS	5
III.	INVESTIGATIONS.....	9
IV.	MANAGEMENT AND ADMINISTRATION.	12
V.	SPECIFIC REPORTING REQUIREMENTS OF SECTION 5(a) OF THE INSPECTOR GENERAL ACT	14

ATTACHMENTS

A.	TABLE I: OIG AUDIT REPORTS WITH QUESTIONED COSTS.....	17
B.	TABLE II: OIG AUDIT REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE	18

INTRODUCTION

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

- spectrum allocation;
- creating rules to promote fair competition and protect consumers where required by market conditions;
- authorization of service; and
- enforcement.

The FCC was authorized 2,145 full-time equivalent employees (FTEs) for FY 1996, this included 40 FTEs to support the implementation of the Telecommunications Act of 1996. As of September 30, 1996, the FCC actually used 2,046 FTEs. The majority of FCC employees are located in Washington, DC. FCC field offices are located throughout the United States.

The Chairman and four Commissioners are appointed by the President and confirmed by the Senate. Reed E. Hundt has been the Chairman of the FCC since November 1993. As of the time of this report, the FCC has three sitting Commissioners; James H. Quello, Rachelle B. Chong, and Susan P. Ness. The fourth Commission seat has not been filled since former Commissioner Andrew C. Barrett left the Commission effective March 30, 1996.

On February 8, 1996, President Clinton signed into law the Telecommunications Act of 1996, (Pub. L. No. 104-104). This signing of this Act represented the first major overhaul of telecommunication law in almost 62 years. The Act is geared towards promoting competition, reducing regulation, and encouraging the rapid development of new technologies. The Act also includes a provision calling for the installation of a V-chip in every new television. Over the six months covered by this report, the Commission worked in an aggressive manner to develop the rules necessary to implement this new law. In

testimony to the House of Representatives on July 18, 1996, the Chairman stated that the Commission had either met or beat the 29 statutory deadlines imposed on the FCC by the Act. In concluding his testimony the Chairman stated:

The Telecommunications Act of 1996 creates a mechanism, whether through agreement or through arbitration, for connecting complex telecommunications networks plug to plug. As we work to write rules implementing the Act's local competition and other provisions, we will continue to be flexible, creative, reasonable, and open. We will also continue to work with our state and local colleagues, the industry, consumers, and this Subcommittee to fulfill the Act's promise of open and competitive markets and the benefits of communications for all Americans.

As identified in our previous semiannual report, the Chairman had proposed a field office restructuring plan that would result in the closure of nine attended frequency monitoring stations and three additional monitoring sites located at FCC field offices. This streamlining initiative has been implemented during this reporting period. In place of these previously manned stations, a national automated monitoring network has been established and will be controlled from an existing facility in Columbia, Maryland. Additionally, the planned closure of nine of the 25 existing field offices as well as three of the six regional offices has been effected. Two technical staff members continue to be assigned as resident agents in the nine locations in which field offices were closed. Overall, authorized staffing within the effected Bureau, the Compliance & Information Bureau (CIB), will decrease by about one-third, from 384 to 254 positions as a result of the restructuring of field operations. The plan was reviewed and approved by the House and Senate Appropriations Committees prior to implementation.

As a component of the reorganization, which is projected to result in annual savings of eight million dollars, the Commission opened on a regional basis, the National Call Center (NCC) housed in the existing FCC facility located in Gettysburg, Pennsylvania. The NCC, when fully operational later this year, will serve as the Commission's nationwide contact point for those parties seeking information about the FCC and all facets of Commission operations. The overall goal of this clearinghouse operation is for the Commission to better serve the needs of the public in an economical and efficient mode. Normal hours of NCC operation are Monday through Friday 8:00am to 4:30pm EST. The NCC can be reached toll free by calling 1-888-CALL FCC (1-888-225-5322). Initial feedback received by the OIG from the

Chief, Compliance and Information Bureau is that the system is operating in a manner beyond pre-implementation projections.

The Commission continues to auction spectrum as authorized by the U.S. Congress in the Omnibus Budget Reconciliation Act of 1993. On April 5, 1996, the Commission announced that "the FCC has reached the \$20 billion mark in total auction revenues to be deposited with the U.S. Treasury." As of the date of this semiannual report, the revenues had risen to over \$22 billion dollars. This figure can be equated to \$11 million dollars per FCC employee, or \$87 dollars per U.S. citizen.

The Office of Inspector General has dedicated itself to assisting the Commission as it continues to improve its efficiency and effectiveness. The Inspector General reports directly to the Chairman. The OIG is located in Room 752 in the FCC headquarters building at 1919 M Street, N.W., Washington, D.C. 20554. The office is staffed by the Inspector General, Mr. H. Walker Feaster III and six staff members. Mr. Paul Brachfeld continues to serve as the Director of Audits. On May 28, 1996, Mr. Edward W. Hosken Jr. assumed the dual post of Counsel to the Inspector General and Director of Investigations. Mr. Hosken came to the FCC from the Committee on Standards of Official Conduct, U.S. House of Representatives, where he was counsel since 1990. Prior to his work with the House Ethics Committee, Mr. Hosken spent twenty-four years in the Navy Judge Advocate General's Corps, including three years with the Navy Inspector General, retiring as a Captain in 1990. He holds a B.A. in Political Science from St. Louis University and a J.D. from Wayne State University.

This report includes the major accomplishments and general activities of the OIG during the period April 1, 1996, through September 30, 1996, in accordance with Section 5 of the Inspector General Act of 1978, as amended 5 U.S.C. App. 3, § 5.

AUDITS

OVERVIEW

One Special Review Report and three Audit Reports were issued by the Inspector General during this reporting period. On August 1, 1996, the OIG issued the Special Review of Auction Site Information Technology (IT) Security (OIG 96-6). The report reflects the ongoing efforts of the OIG to support the conduct of successful spectrum auctions and encourage the development and implementation of strong controls over information technology within the Commission. On August 14, 1996, the OIG issued the Report on the Audit of Employee Use of American Express Government Credit Cards (OIG 96-3). This audit was undertaken in response to a request from the Chairman, House Committee on Government Reform and Oversight. One day later, on August 15, 1996, the OIG issued the Report on Cellular Telephone Utilization (OIG 96-2). On September 30, 1996, the OIG issued its first contract audit report entitled Report on Audit of Proposal for Initial Pricing Under RFP No. 96-37 (OIG 96-11). This audit of a contract proposal resulted in the OIG questioning approximately \$1.78 million of a proposed contract of \$7.71 million for computer support services.

During this reporting period, OIG auditors also continued to provide significant input towards the successful discharge of investigative case activity which resided within this office. Audit staff is working as a part of a multi-disciplinary team with the Director of Investigations towards addressing potential criminal and ethical violations of the law.

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

Audit reports can generally be obtained via the internet at the following address 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 of Auction Site Information Technology (IT) Security (OIG 96-6)

The report was issued August 1, 1996

As part of the OIG's effort to ensure both the protection of the Commission's information resources and the integrity of the spectrum auction program, the OIG performed audit work at the auction site located at 2 Massachusetts Avenue in Washington, DC. The overall objective was to assess security on the various information technology systems supporting the Commission's auction process.

In general, results of audit fieldwork indicated that an acceptable security posture had been established across the various hardware platforms supporting the auction process. However, a number of weaknesses were identified. Those weaknesses which we determined to be critical in nature were directed to responsible personnel during the audit engagement and corrective measures were instituted prior to final report issuance.

In FY 1997 the OIG will perform additional security reviews over the Commission's information resources. It should be noted that management has continued to be supportive of audit activity in this area and has reacted aggressively to address audit findings as identified by the OIG.

2. Report on the Audit of Employee Use of American Express Government Credit Cards (OIG 96-3)

The report was issued August 14, 1996

In response to a request to the Chairman from William F. Clinger Jr., Chairman House Committee on Government Reform and Oversight, dated February 6, 1996, the OIG conducted an audit of Commission employee use of American Express Government credit

cards.

Specific objectives of the audit included: (1) determining if Commission employees were using the account for personal purposes; (2) examining the controls in place to manage the account; (3) determining if management controls were identifying inappropriate charges made to the account; and (4) examining the steps taken to discipline employees who were using the account for personal purposes.

The auditors identified that although there was no evidence of adverse financial impact to the Commission, a significant number of charges made to the American Express Government account by a small number of employees were not related to official travel. For example, there were instances where employees used their American Express Government account cards for charges to local restaurants and merchants, as well as inappropriate retail purchases, gasoline charges, and charges for airlines. Although monthly reports were reviewed by the Agency Program Coordinator, and forwarded to senior management officials, there was no process to follow-up on misuse.

The Managing Director and General Counsel concurred with the recommendation for corrective action and has instituted appropriate corrective action.

3. Report on Cellular Telephone Utilization (OIG 96-2)

The report was issued on August 15, 1996

The OIG identified that inadequate internal controls existed within the FCC to discourage employees from abusing their FCC provided cellular phones. The cost of cellular phones versus wired ISDN phones is significant. Local cellular phone usage is billed at a rate of 35¢ per peak minute and 15¢ per minute off peak and carries an additional 10¢ per call land line fee, versus the ISDN flat rate of 9¢ per call.

In FY 1993, the FCC maintained a cellular phone inventory of 6 telephones. By September 1993, this number had grown to over 130 telephones. Consistent with this growth, the average monthly cellular phone bill of the FCC went from \$1,731 per month in FY 1994 to \$7,580 per month in FY 1995.

A sample of judgementally selected phone bills for FCC employees whose cellular phone bills consistently exceeded \$100 per month over a six month period from January through

July 1995, was reviewed by the auditors. Using a PhoneDisc CD-ROM package, the auditors found a pattern of phone calls being placed to personal residences, restaurants, automobile dealerships, etc. Subsequently, the employees who had placed these calls were interviewed and requested to review their individual telephone bills and notate whether the calls were personal or business related. The results of our analysis and subsequent feedback from the employees questioned, clearly pointed to a pattern of cellular phone abuse within the agency with resulting adverse financial impact upon the government.

The audit report contained three recommendations for corrective action to which the Managing Director indicated concurrence.

4. Report on Audit of Proposal for Initial Pricing Under RFP No. 96-37 (OIG 96-11)

The report was issued on September 30, 1996

As requested by the Office of the Managing Director, Acquisitions Branch, an audit was conducted of a Time and Material, Indefinite Delivery and Quantity (T&M, IDIQ) pricing proposal submitted to the FCC by a vendor. The objective of the audit was to determine and report on whether the proposed direct labor rates are acceptable as a basis to negotiate a fair and reasonable contract price.

The auditors questioned direct labor rates proposed for each labor category proposed in the base year and four option years. Of the total direct labor costs (based upon direct labor rates multiplied by estimated direct labor hours) proposed of approximately \$7.7 million dollars, the auditors questioned a total of \$1,780,646.

The Contracting Officer will use the audit report as a basis of negotiation with the proposed vendor. At the conclusion of the negotiation, the OIG will be provided a copy of the price negotiation memorandum.

INVESTIGATIONS

OVERVIEW

Investigative matters pursued by this office are generally initiated as a result of allegations received from parties external to this office or matters referred by the Director of Audits. Referrals are based upon findings of potential 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, or 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. These complaints are examined to determine whether there is any allegation of employee wrongdoing or that the “process” was not followed or is ineffective. If none of the enumerated factors are present, then the complaint is referred to the appropriate bureau for response directly to the complainant with a copy of the response provided to the Inspector General.

INVESTIGATIVE ACTIVITY

Cases pending as of March 31, 1996	4
Plus: New cases	+21
Minus: Cases closed	-16
Cases pending as of September 30, 1996	9

INVESTIGATIVE CASE SUMMARIES

During this reporting period, OIG investigative activity continued to focus on a matter first referred to the Department of Justice on March 5, 1996. The Inspector General, Director of Investigations, and OIG audit staff have continued to work with agents of the Federal Bureau of Investigation (FBI), the U.S. Attorney's Office for the District of Columbia, and a grand jury. Federal Rule of Criminal Procedure 6 precludes any further discussion pertaining to this investigation.

Another case remaining open from the last report relates to an investigation referred to the Public Integrity Section, Criminal Division, Department of Justice for prosecution of a potential violation of 18 U.S.C. § 207(a)(2), post employment restrictions. This matter has not been brought to closure as of the conclusion of this reporting period.

Opened this reporting period and remaining open.

Two of the cases opened this reporting period have been referred to the FBI. One is open pending the development of further evidence by this office. No more details can be presented since the target is unaware of our interest. In the other case, which involves possibly illegal attempts to manipulate Commission decisions, the FBI is actively investigating while this office stands ready to assist.

Employees are involved in three of the open cases. In one an employee is under suspicion of misusing government property. In the other two, the employees have alleged that the FCC through its supervisors has not followed established procedures. One case involves selection to a higher grade and the other involves a performance appraisal.

Another pending case involves a complaint by a citizen that an improper *ex parte* contact had been made in a restricted case and that this improperly affected the decision maker. The second "outside" complaint involves an allegation that a field office has been unresponsive.

Opened and closed this reporting period.

The largest number of cases closed this reporting period (12) involve complaints from the public regarding the performance or non-performance of official functions by headquarters

and field office staff. The substantive issues ranged from failing to enforce Emergency Broadcast System rules to the improper cancellation of licenses and failure to enforce the obscenity standards.

Two complaints from the public involved the area of *ex parte* submissions contrary to FCC rules. There were admittedly *ex parte* communications made, however, neither was found to have been done intentionally to obtain a specific outcome. Further, neither affected the integrity of the process or outcome.

The last two cases closed involved potential employee misconduct. The first appeared to be the improper use of official mail for unofficial business. However, investigation determined the mailings were in support of official business. The second case involved an attempt to break into a computer system. This investigation was closed due to the inability to develop any investigative leads after learning that a power failure compromised the facility's security system and may have even caused the software program to indicate an attempted login on the computer in question.

HOTLINE CALLS

During this reporting period there were 73 calls to the published hotline number (202) 418-0473. These calls can be divided into 7 broad categories:

1. Calls seeking information	20
2. Calls complaining about interference	3
3. Calls complaining about local cable provider	3
4. Calls complaining about fraud/scams	4
5. Calls complaining about phone service/slamming/bills	16
6. Calls in reference to complaint against FCC employee	1
7. Calls -- miscellaneous	26

MANAGEMENT AND ADMINISTRATION

During the six-month reporting period covered by this report, the Inspector General has continued in his efforts to focus the work of this office towards addressing the needs of the Agency. That is, to ensure the integrity and efficiency of FCC operations during a period in which our mission is rapidly expanding and our fiscal and staffing resources are significantly constrained.

The FCC is an organization that is continuously striving to better meet the needs of our customers while addressing the laws established by the Congress. The Commission has aggressively acted to increase its' accessibility to the public via the internet and the new toll free call center located in Gettysburg, Pennsylvania. The Commission has also recently established customer service standards which communicate to our users what services they can expect from the Commission, and provides a methodology to evaluate whether we are meeting these self imposed standards. Likewise, the Commission continues to be active in the area of identifying spectrum which can, at the direction of Congress, be auctioned off to the private sector, thus generating revenue for the Federal government. The agency has also geared up in its' efforts to implement the provisions of the 1996 Telecommunications Act.

As previously identified, the Commission is in the process of implementing additional automated systems to speed customer service through electronic filings, call-center operations, internet access to core FCC data bases and numerous other facets of agency operations. In formatting our FY 1997 Audit Plan, the OIG has tracked this trend within the agency and is moving to commit audit resources towards ensuring the integrity, effectiveness and efficiency of these new programs and functions. One example is in the area of automation security. The OIG has worked aggressively with agency personnel to provide the highest level of assurance that FCC automated systems are protected from data loss and unauthorized access. In the coming months we will continue to focus upon this objective and serve as both an up-front partner, and proactive reference tool in the design, procurement and implementation of new systems within the automated architecture of the Commission.

We have also bolstered our in-house expertise in the area of contract auditing. This was partially accomplished by having a contract auditor detailed from the Wireless Telecommunications Bureau (WTB) to the OIG for 120 days. The Inspector General will seek to make this temporary personnel action permanent. This office recognizes that a

significant outlay of FCC funds are directed to vendors in consideration for their performance of services and delivery of goods to the agency. Accordingly, the OIG is now working in an extremely constructive manner with the Office of the Managing Director to provide the Acquisitions Branch full contract audit services to include the performance of pre-award, post-award and contract close-out audits. Through the performance of such work, the OIG can make a positive impact upon agency operations and assist management in getting the best deliverables possible at the most economical cost to the taxpayer.

OIG staff will also reinstate the Field Inspection Program (FIP) in the coming months. This program, initiated in 1995, represented the first time an independent entity within the FCC traveled to field offices to perform a comprehensive inspection. The inspection team completes a detailed checklist, developed to assess compliance with Federal government and internal FCC rules and regulations. Additionally, the OIG staff conducts interviews with FCC staff and persons/organizations serviced by the field office (to include law enforcement and government agencies) to obtain feedback on operational effectiveness and efficiency and identify impediments which may exist to the realization of optimal performance. The FIP also searches for best practices which may be transportable to other field locations.

The Inspector General will be the subject of a peer review in the coming reporting period. This review has been requested in order that we might ensure that this office is operating in full compliance with applicable regulations and laws.

SPECIFIC REPORTING REQUIREMENTS OF SECTION 5(a) OF THE INSPECTOR GENERAL ACT

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

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

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

2. A description of the recommendations for corrective action made by the Office during the reporting period with respect to significant problems, abuses, or deficiencies identified pursuant to paragraph (1).

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

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

No significant recommendations remain outstanding.

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

On August 29, 1996, a matter pertaining to potential criminal activity related to the licensing of four radio stations in Vero Beach, Florida, was referred to the FBI. The investigation remains in an open status at this date.

A second matter was referred to the U.S. Department of Justice in the prior reporting period. The investigation remains in an open status. Specific issues related to this matter will be addressed in this forum in subsequent reporting periods as warranted.

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

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

No report was made to the Chairman of the FCC under section (6)(b)(2) during the reporting period.

6. *A listing, subdivided according to subject matter, of each audit report issued by the Office during the reporting period, and for each audit report, where applicable, the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and the dollar value of recommendations that funds be put to better use.*

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

7. *A summary of each particularly significant report.*

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

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

The required statistical table can be found at Attachment A to this report.

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

The required statistical table can be found at Attachment B to this report.

10. *A summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period*

(including the date and title of each such report), an explanation of the reasons such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report.

No management decisions fall within this category.

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

No management decisions fall within this category.

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

No management decisions fall within this category.