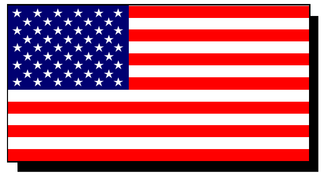


Federal Communications Commission

Office of the Inspector General Semiannual Report to Congress April 1 -September 30, 2003

H. Walker Feaster III
Inspector General

Introduction

The Federal Communications Commission (FCC) is an independent regulatory agency, which was delegated authority by Congress under the Communications Act of 1934, as amended by the Telecommunications Act of 1996. The FCC is charged with the regulation of interstate and international communication by radio, television, wire, satellite and cable. The FCC's jurisdiction covers the fifty states, the District of Columbia and all the U.S. possessions. Under the Communications Act, the FCC is mandated to make rapid, efficient, nationwide and worldwide wire and radio communication service available to all people in its jurisdiction. 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
- Enforcement

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

Michael K. Powell was designated Chairman on January 22, 2001. Kathleen Q. Abernathy, Jonathan S. Adelstein, Michael J. Copps and Kevin J. Martin serve as Commissioners. 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 St., S.W., Washington, D.C. 20554.

The Office of Inspector General (OIG) dedicates itself to assisting the Commission as it continues to improve its effectiveness and efficiency. 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 Cline, Assistant Inspector General (AIG) for Audits; Thomas Bennett, AIG for Universal Service Fund Oversight; Charles J. Willoughby, AIG for Investigations; and Thomas M. Holleran, AIG for Policy and Planning. Mr. Willoughby also serves as counsel.

Introduction

This semiannual report includes the major accomplishments and general activities of the OIG during the period of April 1, 2003 through September 30, 2003.

Universal Service Fund

Oversight of the Universal Service Fund (USF)

Beginning with our semi-annual report for the period ending March 31, 2002, we have included a section on oversight of the Universal Service Fund (USF).* 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 have also used this 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.

I am pleased to report that we have continued to make progress implementing oversight of the USF during this semi-annual reporting period. In this semi-annual report, we provide a brief background on our efforts implementing oversight of USF, an update on oversight activity during the reporting period, and comments on those areas of the program where we have concerns as a result of our involvement in audits and investigations.

History of USF Oversight

Due to materiality and audit risk, we have focused much of our interest on the USF mechanism for funding telecommunications and information services for schools and libraries, also known as the "Schools and Libraries Program" or the "E-rate" program. Pursuant to the Telecommunications Act of 1996 (the Act), Congress directed the Commission to create a universal service support mechanism for schools and libraries (Schools and Libraries Program), which was designed to ensure that all eligible schools and libraries have affordable access to modern telecommunications and information services. On May 7, 1997, the Commission adopted an order implementing the Act. Up to $2.25 billion annually is available to provide eligible schools and libraries with discounts for authorized services.

*The USF is generated through contributions from providers of interstate telecommunications, 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).

Universal Service Fund

Eligible schools and libraries may receive discounts on eligible telecommunication services ranging from 20 percent to 90 percent, depending on economic need and urban or rural location. The level of discount is based upon the percentage of students eligible for the National School Lunch Program or other federally approved alternative mechanisms contained in the Improving America's Schools Act. Libraries use the discount percentage of the school district in which they are located. Discounts can be applied to commercially available telecommunications services, Internet access, and internal connections. Eligible services range from basic local and long distance telephone services and Internet access services to the acquisition and installation of equipment for providing internal connections to telecommunications and information services. Over 40,000 applications were submitted during each of the program's first five program years (1998 – 2002) from schools and libraries in each of the 50 states, the District of Columbia and most territories.

Although independent oversight of the USF program is the responsibility of the FCC OIG, much of the oversight activity that has been performed to date has been performed under the direction of the Universal Service Administrative Company (USAC) and FCC management as part of the oversight program that they have established in accordance with Commission rules.

USAC Oversight

In 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 that were identified as potentially high-risk. E-rate disbursements to these beneficiaries totaled $134.6 million in the first year of the program. The report prepared by the public accounting firm that conducted these audits was adopted by the USAC Board of Directors on October 17, 2001. The audit report disclosed weaknesses at many of the beneficiaries and questioned approximately $8 million in funding disbursements. Several million dollars in questioned disbursements will not be recovered due to a rule waiver issued by the Commission and determinations of non-materiality. As of the end of this semi-annual reporting period, USAC has recovered $280,362 in questioned disbursements resulting from this audit. During October 2003, USAC issued recovery letters for an additional $45,993. In addition to the audit findings, this audit resulted in an investigation with representatives from the Federal Bureau of Investigation (FBI) and Office of Inspector General lending support. The matter has been referred as a civil false claims suit to the Department of Justice where it remains under consideration.

In 2001, USAC contracted with a public accounting firm to conduct audits at twenty-five (25) beneficiaries from the second and third funding years. E-rate disbursements to these beneficiaries totaled $322.0 million in the second and third funding years of the program. The draft report prepared by the public accounting firm that conducted these audits was dated May 31, 2002. The final report, including responses from the USAC Schools and Libraries Division, was released by the Schools and Libraries Committee of the USAC Board of Directors on April 23, 2003. The audit report disclosed monetary findings at fourteen (14) of the twenty-five (25) beneficiaries including $11.4 million dollars in inappropriate disbursements and unsupported costs. In addition, the report identified findings at many of the beneficiaries where there are no monetary findings. As of the end of this semi-annual reporting period, USAC has recovered $1,927,579 in inappropriate disbursements and unsupported costs and initiated recovery actions for $1,353,741, of which $709,013 is under appeal. During October 2003, USAC initiated recovery actions for an additional $1,078,851. USAC has indicated that they will be issuing recovery letters for an additional $6,980,290.

In December 2002, USAC established a contract with a public accounting firm to perform agreed-upon procedures at a sample of seventy-nine (79) beneficiaries from funding year 2000. The sample of beneficiaries was selected by the OIG. In a departure from USAC's two previous E-rate beneficiary audits, the agreed-upon procedures being performed under this contract will be performed in accordance with both the Attestation Standards established by the American Institute of Certified Public Accountants (AICPA) Standards and Generally Accepted

Government Auditing Standards, issued by the Comptroller General (GAS 1994 revision, as amended) (GAGAS). At the time that this semi-annual reporting period ended, the public accounting firm had completed their review at forty-two (42) of the seventy-nine (79) beneficiaries and had prepared reports summarizing the results of those reviews. The OIG is performing the procedures necessary to determine the degree to which we can rely on the results of that work. Many of the issues raised by this body of work are reflected in the section addressing concerns with the E-rate program.

OIG Oversight

Despite limited resources, my office has implemented an aggressive oversight program. Our oversight program includes: (1) audits conducted using OIG and Commission resources; (2) audits conducted by other federal Offices of Inspector General; (3) review of audit work conducted by USAC; and (4) active participation in federal investigations of E-rate fraud.

In October 2001, we obtained four (4) auditors from the Commission's Wireline Competition Bureau on a temporary detail. We provided a 2 ½ day training class to the detailed audit staff and initiated twenty-nine (29) audits of E-rate beneficiaries. 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. Eight (8) of the audits that we initiated have been completed and ten (10) of the audits are still in progress. Shortly after we initiated our audits, we were advised by federal law enforcement of an on-going investigation of a service provider that had provided service to four (4) of the beneficiaries being audited. Law enforcement authorities requested that we modify the scope of our review at these beneficiaries and requested that we perform the modified review at seven (7) additional beneficiaries that were involved with the service provider being investigated. The results of these eleven (11) modified scope reviews were forwarded in a memorandum to federal law enforcement on February 3, 2003.

In that memorandum, we identified monetary findings in the amount of $584,605 related to missing equipment and over-billings for recurring services.

On January 29, 2003, we executed a Memorandum of Understanding (MOU) with the Department of the Interior (DOI) OIG. This MOU is a three-way agreement among the Commission, DOI OIG, and USAC for audits of schools and libraries funded by the Bureau of Indian Affairs and other universal service support beneficiaries under the audit cognizance of DOI OIG. Under the agreement, auditors from the Department of the Interior will conduct audits of these beneficiaries for USAC and the FCC OIG. In addition to audits of schools and libraries, the agreement allows for the DOI OIG to consider requests for investigative support on a case-by-case basis. In February 2003, we provided a 2 day training class for Department of the Interior auditors and provided subsequent training to DOI auditors and investigators during March 2003. We are currently finalizing reports for eight (8) reviews that were initiated by DOI OIG in FY 2003.

We have had numerous meetings with representatives from the Department of Education (DOE) Office of Inspector General to discuss areas of mutual interest including audits and investigations of recipients of E-rate and federal education funding. In April 2003, the DOE OIG initiated an audit of the use of federal education funding to purchase equipment to make effective use of internal connections and internet connectivity funding by E-rate at a large recipient. My office has been providing support to this audit.

In March 2003, we signed a contract with a public accounting firm to provide audit support services for USF oversight to the OIG. The first task order that we established under this contract was for the performance of those procedures necessary to determine the degree to which we can rely on the results of audit work performed under USAC's contract with a public accounting firm. The OIG review team is currently completing the task to verify that work was performed in accordance with the AICPA and GAGAS standards.

Universal Service Fund

In addition to conducting audits, we are currently providing audit support to a number of investigations of E-rate recipients and service providers. Our level of involvement in investigations 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 Department of Justice (DOJ) investigators in the form of complete audits and limited scope reviews. We are actively supporting twenty-two (22) investigations and monitoring an additional thirteen (13) investigations. Allegations being investigated in these cases include the following 5:

- Procurement fraud - lack of a competitive process and bid rigging
- False Claims – Service Providers billing for goods and services not provided
- False Statements by Applicants and Service Providers
- Ineligible items being funded
- Beneficiaries not paying the local portion of the costs resulting in inflated costs for goods and services to the program and potential kickback issues

To implement the investigative component of our plan, we established a formal working relationship with the Governmental Fraud Unit of the FBI. In addition, we established a working relationship with the Antitrust Division of DOJ. 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.

Concerns about the E-rate Program

Since we became involved in USF oversight in 2000, we have devoted considerable resources to oversight of this program, focusing primarily on E-rate spending. We have conducted audits and evaluated the results of audits conducted by others, supported numerous federal, state, and local investigations, and examined the program for purposes of planning effective oversight. I believe that the work that we have performed provides us with a unique perspective on fraud, waste and abuse in the E-rate program. In my last three semiannual reports, I have discussed aspects of the program where we have concerns as a result of our involvement in audits and investigations. In some cases, these concerns represent non-compliance with program rules. In other cases, these concerns relate to areas of the program where requirements have not been codified as program rules. The four areas are as follows:

◊ **Technology Planning**

Program rules require that applicants prepare a technology plan and that the technology plan be approved. The approved technology plan is required to include a sufficient level of information to justify and validate the purpose of a request for E-rate funding. USAC procedures state that approved technology plans must establish the connections between the information technology and the professional development strategies, curriculum initiatives, and library objectives that will lead to improved education and library services. Although the technology plan is intended to serve as the basis for an application, we have observed many instances of non-compliance with program rules and USAC procedures related to the technology planning process. Four examples of technology planning concerns identified during audits and investigations are as follows:

- Applicants not preparing technology plans in accordance with program rules
- Technology plans not addressing all required plan elements in accordance with USAC guidelines for technology planning
- Technology plans not being reviewed and approved in accordance with program rules
- Applicants not being able to provide documentation to support the review and approval of technology plan (Although program rules require that applicants have a technology plan and that the plan be approved, the rules do not require that the applicant maintain specific documentation regarding the approval process.)

◊ **Competitive Procurement**

Program rules require that applicants use a competitive procurement process to select vendors. In establishing this requirement, the Commission recognized that "(c)ompetitive bidding is the most efficient means for ensuring that eligible schools and libraries are informed about all of the choices available to them" and that "(a)bsent competitive bidding, prices charged to schools and libraries may be needlessly high, with the result that fewer eligible schools and libraries would be able to participate in the program or the demand on universal service support mechanisms would be needlessly great."

Applicants are required to submit a Form 470 identifying the products and services needed to implement the technology plan. The Form 470 is posted to the USAC web page to notify service providers that the applicant is seeking the products and services identified. Applicants must wait at least 28 days after the Form 470 is posted to the web site and consider all bids they receive before selecting the service provider to provide the services desired. In addition, applicants must comply with all applicable state and local procurement rules and regulations and competitive bidding requirements. The Form 470 cannot be completed by a service provider who will participate in the competitive process as a bidder and the applicant is responsible for ensuring an open, fair competitive process and selecting the most cost-effective provider of the desired services. Further, although no program rule establishes this requirement, applicants are encouraged by USAC to save all competing bids for services to be able to demonstrate that the bid chosen is the most cost-effective with price being the primary consideration.

Although the program's competitive bidding requirements were intended to ensure that schools and libraries are informed about all of the choices available to them, we have observed numerous instances in which beneficiaries were not following the program's competitive bidding requirements or were not able to demonstrate that competitive bidding requirements are being followed. Three examples of competitive procurement concerns identified during audits and investigations are as follows:

- Applicant did not follow program requirements for a competitive process with price as the primary determining fact
- Applicant did not follow state and local procurement regulations
- Applicant did not maintain documentation to demonstrate compliance with the programs competitive procurement requirement (Although program rules require that applicants follow a competitive process, the rules do not require that the applicant maintain specific documentation regarding the competitive process.)

Concerns related to the competitive process, or the lack thereof, are frequently identified during support to investigations of E-rate fraud. In fact, one (1) of the two (2) E-rate fraud cases that have resulted in criminal indictments involved bid rigging. Several other cases that are being investigated include allegations of procurement irregularities and bid rigging.

◊ **Discount Calculation and Payment of the Non-Discount Portion**

The E-rate program allows eligible schools and libraries to receive telecommunications services, Internet access, and internal connections at discounted rates. Discounts range from 20% to 90% of the costs of eligible services, depending on the level of poverty and the urban/rural status of the population served, and are based on the percentage of students eligible for free and reduced lunches under the National School Lunch Program (NSLP) and other approved alternative methods. Service providers are required to bill applicants for the non-discount portion and applicants are required to pay the non-discount portion of the cost of the goods and services to their service providers. In establishing this requirement, the Commission recognized that "(r)equiring schools and libraries to pay a share of the cost should encourage them to avoid unnecessary and wasteful expenditures because they will be unlikely to commit their own funds for purchases that they cannot use effectively." Further, the Commission recognized that "(a) percentage discount also encourages schools and libraries to seek the best pre-discount price and to make informed, knowledgeable choices among their options, thereby building in effective fiscal constraints on the discount fund." The discount rate calculation and program requirement for payment of the non-discount portion are intended to ensure that recipients avoid unnecessary and wasteful expenditures and encourage schools to seek the best pre-discount rate. Four examples of concerns identified during audits and investigations are as follows:

- Applicant did not follow program requirements for discount rate calculation or is unable to support discount rate calculated
- Applicant did not pay the non-discount portion
- Applicant did not pay the non-discount portion in a timely manner (It should be noted that, although program rules require that applicants pay the non-discount portion, the rules do not establish a time frame in which the applicant must make payment.)
- Service providers did not bill recipients for the non-discount portion

◊ **Delivery of Goods and Services**

Site visits are conducted during most E-rate beneficiary audits. Site visits are conducted for several reasons including to evaluate the eligibility of facilities where equipment is installed, verify that equipment is installed and operational, and to verify that equipment is being used for its intended purpose. Five examples of concerns identified during audits and investigations are as follows:

- Goods and services not being provided
- Unauthorized substitution of goods and services (In some cases this is not an issue, e.g., substitutions are made with newer versions of products, however, in many cases products with significantly reduced functionality are substituted.)
- Goods and services being provided to ineligible facilities (e.g., non-instructional building including dormitories,

cafeterias, and administrative facilities)
- Goods and services not being provided to the facility for which the funding was requested
- Equipment not being installed or not operational (It should be noted that Commission rules do not require that equipment be operational.)

Management Issues

In addition to issues related to the E-rate program, we have continued to explore issues related to efficient and effective management of the fund. These issues include strengthening the nature of the relationship between the Commission and USAC, addressing concerns of Commission financial operations related to USF fund management, and use of the USF to pay for the cost of OIG oversight.

USAC administers the USF at the direction of the Commission. Part 54 of Title 47 of the Code of Federal Regulations (47CFR54) defines the relationship between the Commission and USAC. However, numerous functions, particularly in the area of financial management and oversight, are performed voluntarily by USAC under undocumented, oral agreements. On September 26, 2003, the Commission adopted an order amending Commission rules governing certain financial reporting and auditing requirements applicable to the Universal Services Fund and the Telecommunications Relay Services (TRS) Fund. The amended rules require the Administrators of the Funds, including USAC, to prepare financial statements for the Funds consistent with generally accepted accounting principles for federal agencies (Federal GAAP) and to keep the Funds in accordance with the United States Government Standard General Ledger (USGSGL). In addition, the amended rules require fund Administrators to conduct audits of the Funds pursuant to generally accepted government auditing standards. This order addresses some of the issues that have complicated financial management and fund oversight. However, it is our opinion that fund management could be further strengthened by continuing to formalize the relationship between the Commission and USAC.

In addition to addressing the relationship between USAC and the

Commission, we have been considering issues regarding financial management of the USF. Based on our knowledge of USF financial management matters, it is our opinion that fund management would benefit from the additional control it would be afforded if it were maintained in an account managed by the Department of the Treasury.

The last management issue relates to use of the fund to pay for the cost of OIG oversight. Currently, the Commission does not have the authority to use USF funds to pay for the FCC's cost of administering the fund, including the costs associated with providing oversight. In my last three semi-annual reports, I have reported the lack of resources as an obstacle to implementation of effective and independent program oversight. While we are hopeful that appropriated funding will be available in FY 2004, we remain convinced that the best solution for ensuring that adequate resources for program oversight are available would be accomplished by using the fund to pay for OIG oversight. We believe that these issues should be explored further. We will continue to encourage their consideration in discussions with FCC management and other appropriate officials.

Conclusion

The Office of Inspector General remains committed to providing effective oversight of the Universal Service Fund program. As we begin FY 2004, we are continuing to implement the oversight program that we have designed. The Commission's FY 2004 budget estimate to Congress included $3 million "to support the agency efforts to prevent waste, fraud and abuse within Commission programs." The Commission's Managing Director has advised us that all of this funding is intended for USF oversight by the OIG. We anticipate using this funding to have contract resources conduct an audit of a statistical sample of E-rate funding recipients that will enable us to achieve both attribute and variable estimation results (i.e., both percentage and dollar value of improper payments identified during the audit process) with a high degree of confidence. In addition, we intend to conduct audits of selected funding recipients based on identified risks and other criteria. We will also explore expanding our audit coverage to include service providers (vendors of goods and services) that participate in the program, as well as the applicants (schools and libraries). In addition to audits, we anticipate using contract resources to provide audit support to a number of on-going investigations. To date, the OIG has provided audit support to a number of these investigations with OIG staff, detailed auditors, and in teaming arrangements with USAC internal audit. The availability of appropriated funding for contractor support will enable us to enhance our investigative support capability. We are hopeful that we will be able to fully implement the oversight program that we have designed during FY 2004. However, despite the positive developments during this reporting period and the likelihood of funding for this fiscal year, our position remains as we have previously stated - until such time as resources and funding are available to provide adequate oversight for the USF program, we are unable to give the Chairman, Congress and the public an appropriate level of assurance that the program is protected from fraud, waste and abuse.

Audits

I. Financial statement audits provide practical assurance about whether the financial statement of an audited firm shows the financial position, results of operations, and cash flow in the standards of generally accepted accounting principles. These audits are used to decipher whether or not financial information is presented according to established or stated criteria. These audits also reveal if the firm's internal control over financial reporting and/or safeguarding assets is designed to adequately fit the firm and if it is fully implemented to achieve the control objectives.

Audit of the Commission's FY 2003 Financial Statement

The report(s) issued in conjunction with this annual audit will appear in our next semi-annual report, October 1, 2003 through March 31, 2004. For a detailed discussion of the status of this audit, see the Work-In-Process section, page 24.

Audits

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.

Contract audits were initiated in fiscal year 2000 to ensure that the FCC was receiving fair value in return for dollars expended. Virtually all Commission contracts are primarily for labor. We randomly audit the labor charging and timekeeping practices of contractors in order to determine whether contractor personnel implement their policies and procedures accurately and fairly. Labor must be accurately recorded and distributed in a timely manner. Contract audits are performed to ensure that contractors accurately accumulate, record and bill costs on government contracts.

The FCC works with the Defense Contract Audit Agency (DCAA) to ensure these objectives are met. DCAA performs unannounced floor checks of contractor employees. DCAA auditors also collect timesheets to make sure time is accurately charged, and interviews contractor personnel. DCAA makes sure that employees know how to document their time, that procedures for timekeeping are clear, and that the system is continually verified and violations are remedied promptly.

1. Report on Audit of Labor Charging and Timekeeping Practices of NOVA Technology, Inc. (Report 03-AUD-01-04), May 7, 2003

This audit disclosed that certain contractor labor practices require corrective action to improve the reliability of the contractor's labor accounting system.

Floor checks, conducted in March 2003, revealed that employee timesheets were not completed daily. One employee had not completed his timesheet from the previous day and another employee had not completed his timesheet the previous two days. It was also found that management does not monitor daily recording of labor hours by employees.

These findings were discussed with NOVA Technology Inc.'s Supervisory Auditor who agreed to remind all employees to complete their timesheets on a daily basis and monitor the daily recording of employees' timesheets and notify them if they are delinquent.

2. Report on Audit of NOVA Technology, Inc. Billing System, (Report 03-AUD-09-19), August 15, 2003

DCAA completed an audit of the internal controls of the billing system used by NOVA Technology, Inc. to accumulate and bill costs under government contracts.

The objective of this audit was to evaluate the compliance of NOVA's billing system with Federal Acquisition Regulations (FAR) and contract requirements. The audit also sought to determine whether NOVA's system of billing controls is adequate to provide billed costs that are reasonable, compliant with applicable laws, regulations and contract terms, and subject to applicable financial control systems.

As a result of the billing system internal audit procedures performed by DCAA, the auditors concluded that, in their opinion, NOVA's billing system is inadequate in part for billing costs accumulated under government contracts.

DCAA discussed the audit results with NOVA's Chief of Operations on July 30, 2003. The representative stated that NOVA has the development of an indirect rate structure by the end of FY 2003 under consideration, but does not have formal plans for accomplishing this change.

We consider the contractor's response to be inadequate and recommend that NOVA be required to submit a detailed plan specifying the billing system modifications and timing it will take to implement a billing system that complies with the applicable Federal Acquisition Regulations.

This is the third audit conducted of NOVA since FY 2001. While our first audit disclosed no significant deficiencies in the contractor's timekeeping and labor practices, the second audit did discover two timekeeping deficiencies that were of concern. In light of their history, we recommend that further scrutiny of NOVA's billings be considered.

3. DCAA Report on Audit of Fiscal Year 2001 Incurred Costs of DynCorp Information Technology (IT Segment), (Report 03-AUD-09-10), September 26, 2003

DCAA conducted this audit to determine allowability and the allocation of direct and indirect costs and to establish audit-determined indirect cost rates for December 29, 2000 through December 27, 2001.

DCAA's audit disclosed no material findings that would impact FCC contracts.

III. Program audits assess whether the objectives of both new and 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. Special Review of Workplace Violence: Data Collection and Analysis, (Report 02-AUD-04-15), April 17, 2003

The OIG has completed an employee survey as part of our assessment of the workplace violence prevention program at the FCC. The objectives of this survey were:

(1) Obtain data to confirm conclusions reached in the risk assessment we conducted last year.
(2) Obtain baseline measures that the FCC could use to evaluate its implementation of a comprehensive program of violence prevention.
(3) Determine how certain issues and concerns reported by FCC employees compared to those reported at other organizations.

The results of the survey appear to confirm many of the conclusions reached in the risk assessment (OIG Report No. 01-AUD-06-23, January 15, 2002).

While most employees report feeling safe from violence, over 10% have real fears about personal safety and incidents of workplace violence.

Our report recommended that management use the results of this survey in designing new policies and procedures. We also recommended the Commission continue to give the work group their full support in moving forward in creating a comprehensive program of violence prevention. Finally, we recommended that the Commission repeat this survey, or a portion of it, on a regular basis to evaluate improvements in employee safety and security and changes in employee attitude on workplace violence issues.

2. Follow-up Audit of the Commission's Purchase Card Program, (Report 01-AUD-09-37), May 28, 2003

On May 6, 1999, the OIG issued a report No. OIG-98-06 entitled "Report on Audit of the Federal Communications Commission Purchase Card Program." In that report, OIG concluded that Commission purchase cardholders were not complying with policies and procedures concerning purchase card use.

The objective of this follow-up audit was to assess compliance with purchase card program policies and procedures and determine if the FCC took appropriate corrective action.

The OIG found the Purchase Card Program policies and procedures to be adequate, however, our audit disclosed that significant internal control weaknesses exist. We made recommendations that, in our opinion, would increase management control and reduce the risk for abuse within the Commission's purchase card program.

Figure 2:

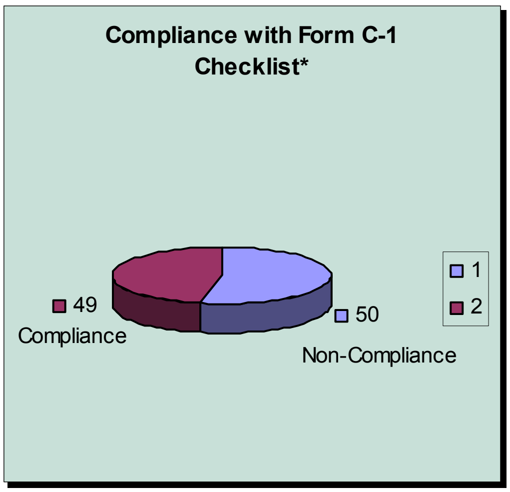
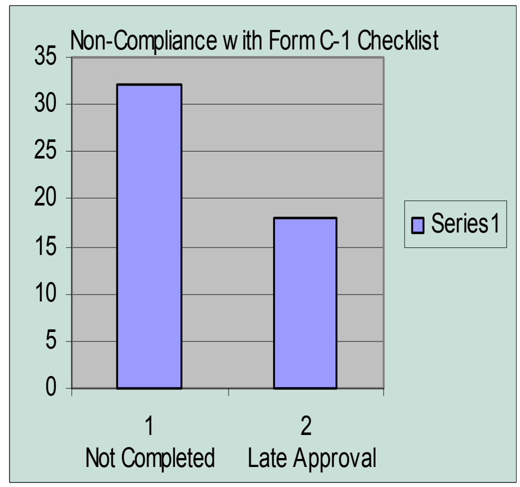


Figure 3:



*The C-1 Checklist is the form all employees are required to complete after every purchase card transaction.

Figure 2: Fifty (50) instances of ninety-nine (99) randomly audited transactions were non-compliant with the Commission's Form C-1 Checklist, FCC Form A-526, completion requirement.

Figure 3: Thirty-two (32) instances were for the required Form C-1 Checklist not being completed and eighteen (18) instances were for the Form C-1 Checklist being completed and authorized by approving officials after cardholders had purchased goods or services.

3. Quality Control Review of the Federal Trade Commission (FTC) OIG, June 25, 2003

The Executive Council on Integrity and Efficiency (ECIE) requires a periodic review of each member OIG's system of quality control. We conducted this review for the FTC OIG during the semiannual reporting period.

4. Report on Audit of the E-Rate Program at Albermarle Regional Library System, (Report 02-AUD-02-04-16), August 27, 2003

The objective of this audit was to assess the beneficiary's compliance with the rules and regulations of the USF program and to identify areas in which to improve the program. Albermarle Regional Library System is comprised of seven (7) library sites that are located in four (4) counties within a rural region of North Carolina. The period of our review was from July 1, 1999 to June 30, 2000, which comprised Funding Year 2 of the E-Rate program. Funding disbursements amount to approximately $24,000, of which 81% was for internal connections and 19% was for telecommunication services.

The audit found the beneficiary was compliant with the program requirements and found no material control weaknesses relative to the program.

5. Report on Audit of Auctions Information Technology Capital Investment Practices, (Report 02-AUD-03-12), September 12, 2003

OIG has completed an audit of auctions information technology capital investment practices to identify factors contributing to the continual rise in Auctions' fiscal year program costs and to assess the FCC's information technology capital investment practices.

The OIG initiated this audit due to the concerns from the Office of Management and Budget (OMB) about the increasing Auctions' costs in the past several years.

To identify the factors contributing to the rising Auctions program costs, the audit team reviewed and analyzed Auctions fiscal year expenditure data (FY 1994-2002), budget requests (FY 1994-2003) and source purchasing documentation.

Additionally, an audit survey was distributed to FCC Bureaus and Offices outside of the Wireless Telecommunications Bureau (WTB) to gain an understanding of their use and management of Auctions funds.

The audit found several areas where the management effectiveness for Auctions program costs could be improved.

These three are:

- Reevaluate Auctions Funding Justifications for major FCC systems
- Use consistent Auctions Cost Accounting Methods
- Establish an effective Capital Investment Program

Implementation of the above recommendations should result in uniform, centralized procedures for the selection, control and evaluation of its IT investments.

6. Survey of System Development Life Cycle (SDLC) Implementation, (02-AUD-01-03), September 29, 2003

The objective of this survey is to determine the extent of use and compliance with the SDLC at the Commission. Audit surveys are conducted to gather information on a program, activity, or function of the FCC and to identify areas that may need improvement. The outcome of an audit survey is to close the survey with a memorandum or continue into a detailed audit.

To accomplish the objectives of this survey, the OIG auditor used the following methodology. An auditor reviewed SLDC information, including documentation policy, practices, roles and responsibilities, templates, checklists, and other user guides. Also, an auditor interviewed employees in other Bureaus and Offices. ITC documentation related to the SDLC was analyzed. Federal government documents were reviewed. Finally, the OIG auditor interviewed contractors involved in reviewing the SDLC during OIG audits.

Based on the results of this survey, the OIG will not perform any additional audit work on the use of the SDLC in the Commission. Instead, the OIG will focus on performing SDLC work as part of its future information system (IS) audits. Further audit work by the OIG solely on SDLC usage would not likely duplicate the audit work currently being done on IS and financial audits. Therefore, we conclude that audit coverage planned in future application reviews will provide sufficient oversight of SDLC implementation.

7. Survey of FCC Initiatives for Implementing the Government Performance and Results of (GPRA) of 1993, (00-AUD-01-07), September 30, 2003

The objective of this survey was to update our understanding of the FCC's methodology for developing GPRA requirements, assess the

FCC's compliance with GPRA, review required reporting, and to identify areas in which additional audit work should be performed.

Based on the results of the survey, we found that, while weaknesses existed in the FCC's implementation of GPRA, it would be more efficient to focus on GPRA work as part of the annual financial statement audits and to audit the FCC's Performance Activity Report for fiscal year 2004, which will be submitted in fiscal year 2005.

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

1. Audit of the Commission's FY 2003 Financial Statement

This audit was performed as part of our commitment to support management's efforts to align the FCC's financial accounting and reporting systems with related accounting principles, federal laws and regulations, and policy guidelines. This is not only important internally to the FCC's operations, but is also necessary to the audit of the Consolidated Financial Statements of the United States government. The Treasury Department requests that non-CFO agencies, such as the FCC, verify financial data submissions every year. The FCC does this according to Generally Accepted Accounting Principles (GAAP) of the federal government in order to verify its Federal Agencies' Centralized Trial-Balance System (FACTS) transmissions. The objective of this audit is to provide an opinion on the FY 2003 financial statements.

At the direction of the Department of Treasury, FCC prepares consolidated financial statements in accordance with Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, and subjects them to audit. The financial statement is being audited in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Under a contract monitored by the OIG, Clifton Gunderson LLP, an independent public accounting firm, is performing the audit of the FCC's FY 2003 financial statements.

At the close of this semi-annual period, Clifton Gunderson LLP and OIG auditors completed comprehensive planning, substantially completed testing of internal controls and reviewed the March and June quarterly agency financial statement compilations. Upon receipt of the year-end financial statements in early November, substantive testing of September balances will commence. The OIG expects to issue the Independent Auditors' Reports which include the audit opinion in the second quarter of FY 2004.

2. Audit of Loan Portfolio and Related Activity

The objective of this audit is to assess the transition of the portfolio from the FCC to a loan service provider environment. To mitigate concerns regarding past contractor operations and to prepare auditable balances the Commission contracted with a public accounting firm to review and recalculate loan balances since inception.

3. Audit of Financial Management of Auction Proceeds

The FCC has express authority to employ competitive bidding procedures to choose from applications for initial licenses by using an auction process and to offset the cost of these competitions with auction proceeds. This audit is being conducted to evaluate any potential duplicative efforts in the operation and management of the auction's process.

4. Survey of Telecommuting Program

The purpose of this project is to survey managers and supervisors about their employees' participation and obtain input on perceived benefits, complications, and shortcomings they have experienced or observed since the Commission's Flexible Workplace Program was established.

5. Audit of the Physical Security of Commission Facilities

The objective of this audit is to identify vulnerabilities and opportunities for improvements in physical security posture at Commission facilities. An entrance conference was held in August and work is ongoing.

6. Audit of the Physical Security at Gettysburg Commission Facility

The objective of this audit is to identify vulnerabilities and opportunities for improvements in physical security posture at the Commission's facility in Gettysburg, Pennsylvania.

We issued a draft audit report on this audit to FCC management on August 6, 2003 and issued a revised draft report on October 6, 2003. The draft report is under management review.

7. Survey of the Universal Service Fund (USF) High Cost Program

We are conducting an audit survey of this program to identify areas of risk, potential vulnerabilities and compliance with program requirements and regulations. The result 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.

8. Audit of Revenue Accounting Management Information System (RAMIS) Application Controls

The objective of this audit is to determine the extent and effectiveness of application controls in RAMIS. RAMIS is the Commission's system of record for revenue transactions, and is the financial system that supports application and regulatory fees, spectrum allocation loan portfolio management, accounting for auction proceeds, accounting for enforcement actions and other accounts receivable of the Commission.

We issued a draft report to FCC management on September 30, 2003. The draft report is under management review.

9. FY 2003 FISMA Evaluation

The Federal Information System Management Act (FISMA) focuses on the program management, implementation and evaluation aspects of agency security systems. FISMA requires that Inspector Generals perform an annual independent evaluation of agency information security programs by examining the security programs and practices.

To accomplish this objective, we will test the effectiveness of security controls for an appropriate subset of the Commission's systems. The information report required by the Office of Management and Budget was issued on September 22, 2003. We will issue a final report on this audit in the next reporting period.

10. Audit of Human Capital Management

The primary objectives of this audit are: (1) determine if the Commission has implemented a workforce planning strategy that complements both the FCC strategic plan and the GPRA performance plans; (2) identify human capital management practices and compare those to recognized industry and government standards; and (3) determine the status of the Commission's knowledge management plan.

Management

- **External Audit of Quality Control**

The next peer review of the FCC OIG is scheduled for March, 2004. It will be performed by the Equal Employment Opportunity Commission (EEOC).

- **Specialized Training and Activities**

In our continuing effort to expand the expertise of our audit staff, two auditors attended the 10 day, non-criminal investigator training at the Federal Law Enforcement Agency in Georgia.

- **Report Availability**

The OIG audit and other types of reports can generally be obtained via the Internet from the OIG web page located on the FCC website at http://www.fcc.gov/oig. However, OIG reports containing sensitive or proprietary information will be restricted to specific individuals and organizations with a need to know the detailed information.

- **Internships**

The OIG welcomes college interns during the fall, spring and summer. Most of these students take their internships for credit. Recent interns have come from schools across the country, including Hamilton College UC Berkeley, American University, Georgetown University and DePauw University.

These internships prove to be a rewarding experience for both parties. Students leave with a good understanding of how a government agency is run, and they have the opportunity to encounter the challenges involved in governance and regulation. In turn, the office benefits from the students' excellent work performance that reflects their youth and exuberance.

For more information about internships in OIG, go to the web page located on the FCC site at http://www.fcc.gov/oig/oiginternships.html.

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 jurisdiction of the OIG is alleged, the complaint is usually referred to the appropriate FCC bureau or office for response directly to the complainant. In many instances where the nature of the complaint does not fall within jurisdiction of the OIG, 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**

Thirty cases were pending from the prior period. Twenty-six 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 eight complaints were received during the current reporting period. Over the last six months ten cases have been closed.

Investigations

A total of twenty-eight 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. The investigations pertaining to the pending two non-USF cases are ongoing.

◊ **Statistics**

Cases pending as of March 31, 2003……………………………………………………………………30

New Cases…………………………………………………………………………………8

Cases Closed………………………………………………………………………………10

Cases pending as of September 30, 2003……………………………………..28

SIGNIFICANT INVESTIGATIVE CASE SUMMARIES

The OIG initiated an inquiry into allegations of the possible release of non-public information related to the Commission's consideration of the EchoStar/DirecTV merger. It was alleged that staff recommendations opposing the merger had been released to sources outside of the Commission. The proposed merger was also under consideration by the Department of Justice (DOJ). Information pertaining to the staff recommendations as well as the DOJ review appeared in the press. Specifically, the initial article reported that a draft of the recommendations was being reviewed by Commission personnel and that DOJ was preparing to formally deny or reject the merger, and that indications were that the staff did not suggest any circumstances under which the merger could be approved. Subsequent articles likewise made reference to the reviews at the Commission and DOJ and did not contain any real substantive information concerning the matter. Based on the limited nature of the information that appears to have been released, this office concluded that the information was not released in written form but rather was released orally. Further, because of the reported information, this office could not determine the source or sources of the disclosure. Accordingly, the matter has been closed.

Investigations

The OIG initiated an inquiry into allegations of the possible release of nonpublic information related to the Commission's consideration of the cable ownership limits. The alleged disclosure related to staff recommendations concerning cable ownership limits which were reported in a press article. Specifically, the information in question concerned a reference to a 45% ownership limit. As a result of the investigation, the OIG concluded that in light of the apparently limited nature of the disclosed information, the information was disclosed verbally and not in written form. Also, it was determined that at the time of the article, the ownership cap was still in the discussion stages and the 45% figure had not been definitively determined. Accordingly, in light of the limited nature of the allegedly disclosed information as well as the fact that the information appears to have been disclosed orally, this office is unable to conclusively find that any non-public information was disclosed let alone the source of information. The matter has been closed.

The OIG initiated an investigation into allegations that a supervisory Commission employee had improperly used his computer workstation to access pornographic and other non-work related sites in violation of Commission regulations and provisions of the Code of Federal Regulations concerning use of government equipment and use of official time. Through investigation the employee was found to have accessed the sites in question in violation of the applicable standards. Disciplinary action has been taken against the employee and the matter has been closed.

The OIG initiated an inquiry into allegations by a consumer that Commission employees failed to properly process his complaint and improperly refused to furnish a copy of the complaint to him upon request. Through investigation it was determined that the employees who participated in the processing of the complaint did not act improperly and thus their actions did not constitute misconduct. The matter has been closed.

The OIG initiated an inquiry into allegations that Commission employees had mishandled a petition by improperly filing the document and failing to take corrective action when notified of the error.

Through investigation, it was determined that the document had initially been filed improperly. The petition was subsequently filed correctly. The OIG found no evidence that the erroneous filing or the delay in taking corrective action was the result of employee misconduct, and the matter was closed.

The OIG initiated an inquiry into allegations that non-public information relating to the Commission's consideration of procedures governing the use of satellite earth stations aboard vessels was improperly released. Specifically, it was alleged that a draft of the notice of proposed rulemaking related to the procedures in question was released without authorization to someone outside of the Commission. Through investigation, it was ascertained that the draft document, which had been circulated among other federal agencies for comment, had been released to someone in the private sector. The document appears to have been released approximately one month after it had been circulated to other agencies and approximately one week after the comments were due from the other federal agencies. Based on the information derived, particularly the timing of the apparent release, the OIG was unable to narrow down the source of the release as being within the Commission. Accordingly, the matter has been closed.

The OIG initiated an inquiry into the alleged release of non-public information involving the Commission's consideration of total-element long-run incremental cost methodology. This matter 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.

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

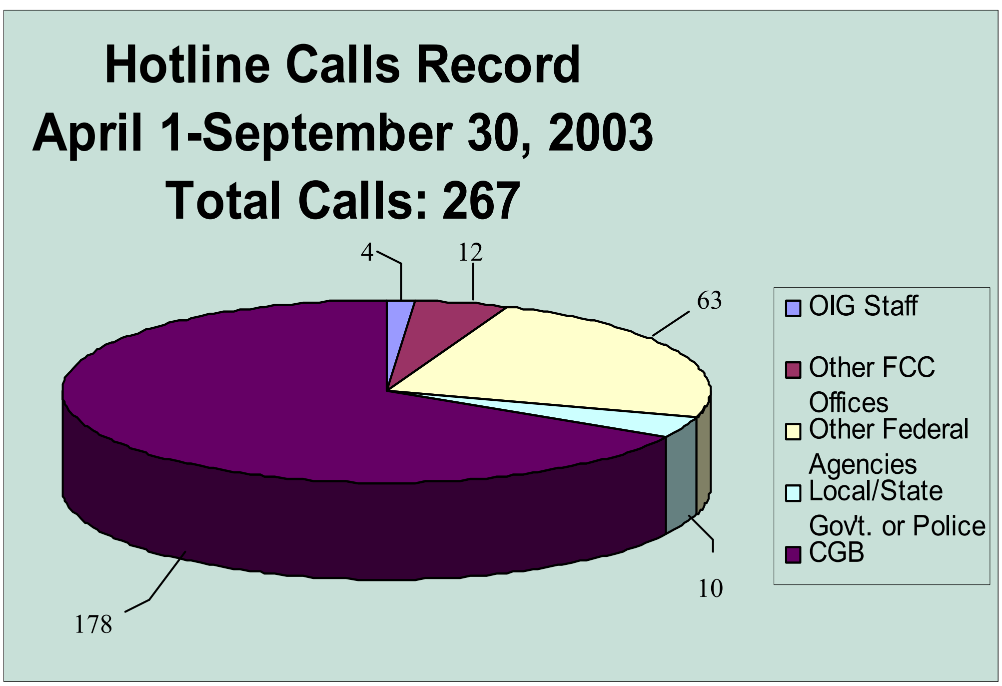
The Counsel to the IG continued to monitor legislative activities affecting the activities of the OIG and the FCC.

During this period, this office continued to monitor legislation and legislatively related proposals, which directly or indirectly impact on the ability of Designated Federal Entity IGs to function independently and objectively. As noted in our last report, the primary piece of legislation monitored during this period was the legislation granting statutory law enforcement authority to certain designated OIGs. This office was not among the designated OIGs under the legislation. However, the legislation is being monitored with respect to any possible indirect impact that it may have on this office's operations. Under the legislation, there are peer review requirements for the designated OIGs that may have an impact on the non-designated OIGs. In this vein, this office is working with and participating in discussions with other OIGs with respect to, among other things, the feasibility of developing a peer review process for non-designated OIGs.

IG Hotline

HOTLINE CALLS

During this reporting period, the OIG Hotline Technician received 267 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. In addition, the OIG also refers calls that do not fall within its jurisdiction to such other entities as other FCC offices, federal agencies and local or state governments. Examples of calls referred to the NCC or other FCC offices 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.



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.

ABC 2	OPER 0	ABC 2
GHI 4	1	TUV 8

OPER 0	GHI 4	PQRS 7	DEF 3

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 12 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 "Universal Service Fund" on pages 3 through 14.

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

Refer to the Section of the semiannual report entitled "Universal Service Fund" on pages 3 through 14.

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

No significant recommendations remain outstanding.

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

Twenty-six cases associated with the Commission's Universal Service Program have been referred to the Department of Justice. Four individuals have pled guilty and are awaiting sentencing.

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 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 why such a management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report.

No audit reports fall within this category.

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

No management decisions fall within this category.

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

No management decisions fall within this category.

OIG Reports With Questioned Costs

Table I. Inspector General Reports With Questioned Costs			
A. For which no management decision has been made 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 disallowed costs	-	-	-
(ii) Dollar value of costs allowed	-	-	-
D. For which no management decision has been made by the end of the reporting period.	-	-	-
Reports for which no management decision was made within six months of issuance.	-	-	-

OIG Reports With Recommendations That Funds Be Put To Better Use

Table II.

Inspector General Reports With Recommendations That Funds Be Put To Better Use		
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.	-	-