

Federal Communications Commission

Office of the Inspector General
Semiannual Report to Congress
October 1, 2002-March 31, 2003



H. Walker Feaster III
Inspector General

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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 regulating 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 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 J. 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) has dedicated 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; Charles J. Willoughby, AIG for Investigations; Thomas M. Holleran, AIG for Policy & Planning. Mr. Willoughby also serves as counsel.

On March 10, 2003, Thomas D. Bennett was named to the newly created position of Assistant Inspector General for Universal Service Fund Oversight. Robert Shipp was named to the newly created position of Director of Contract and Performance Audits.

This semiannual report includes the major accomplishments and general activities of the OIG during the period of October 1, 2002 through March 31, 2003.

Universal Service Fund

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)¹. We decided that it was necessary to highlight our efforts to provide oversight of the USF to ensure that report recipients and other constituents clearly understood our concerns about this program. We 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.

During this semi-annual reporting period, the Office of Inspector General has continued to devote considerable resources to oversight of the USF. I am pleased to report that we have continued to make progress implementing oversight of the USF and that there have been significant developments both inside and outside of the Commission that have a direct bearing on USF oversight. In this semi-annual report, we will provide a brief background on our efforts with respect to implementing oversight of USF and report on the developments that occurred during the semi-annual reporting period.

◆ History of USF Oversight

The FCC Office of Inspector General was created specifically for the purpose of providing an independent and objective unit within the Commission to: (1) conduct and supervise audits and investigations relating to Commission programs and operations; (2) provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of, and to prevent and detect fraud and abuse in, such programs and operations; and (3) provide a means for keeping the FCC Chairman and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.

In the last two semi-annual reports, we related our efforts to establish an oversight program for the USF. We explained that, due to materiality and audit risk, we had focused our interest on the USF mechanism for funding telecommunications and information services for schools and libraries, also known as the "Schools and Libraries Program" or the "E-Rate" program². We reported that, during FY 2001, we worked with Commission representatives as well as with the Defense Contract Audit Agency (DCAA) and the Universal Service Administrative Company (USAC), to design a nation-wide audit program that will provide the Commission with programmatic insight into compliance with rules and requirements on the part of E-Rate program beneficiaries and service providers. Our program was designed around two corollary and complementary efforts.

¹ 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 Services Administrative Company (USAC) administers the USF under regulations promulgated by the Federal Communications Commission (FCC).

² The E-Rate Program was created on May 7, 1997 when the Commission adopted a Universal Service Order implementing the Telecommunications Act of 1996. The Order was designed to ensure that all eligible schools and libraries have affordable access to modern telecommunications and information services. Up to \$2.25 billion annually is available to provide eligible schools and libraries with discounts for authorized services.

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First, we would conduct reviews on a statistical sample of beneficiaries large enough to allow us to derive inferences regarding beneficiary compliance at the program level. Second, we would establish a process for vigorously investigating allegations of fraud, waste, and abuse in the program. Unfortunately, there were several obstacles that have impeded our ability to implement our oversight program. These obstacles include a decision by DCAA management not to perform audits on a reimbursable basis, difficulties obtaining adequate audit resources, and questions about the nature of the fund. As a result, although oversight of the USF program is clearly our responsibility, much of the oversight activity that has been performed to date has been performed under the direction of the Universal Service Administrative Company (USAC) as part of the oversight program that they have established.

USAC Oversight

In calendar year 2000, USAC contracted with a public accounting firm to conduct audits of eighteen (18) beneficiaries of funding from the first year³ 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 audit report disclosed weaknesses (ranging from regulatory non-compliances to computation errors) at many of the beneficiaries and questioned approximately \$8 million in funding disbursements. In addition, their audit resulted in a major investigation involving representatives from the Federal Bureau of Investigation (FBI) and Office of Inspector General. The matter has been referred as a civil false claims suit to the Department of Justice where it remains under consideration. USAC has implemented administrative procedures to address the findings of this report. However, several fund recoveries are still in process more than a year after the report was issued. Furthermore, several million dollars in questioned disbursements will not be recovered due to a rule waiver issued by the Commission and determinations of non-materiality.

In calendar year 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 million in the second and third funding years of the program. The draft report for these audits was dated May 31, 2002. In our last semi-annual report, we stated that the results of this audit were under review by USAC and the Commission's Wireline Competition Bureau (WCB). We have been informed that, at the time that this semi-annual reporting period ended, the findings in this report have been discussed with the applicants and service providers and that USAC has reviewed each finding. USAC has reported that their analysis of the draft report indicates monetary findings at fourteen (14) of the twenty-five (25) beneficiaries including \$11.4 million dollars in inappropriate disbursements and unsupported costs. Further, USAC has reported that there are non-monetary findings at a portion of the eleven (11) beneficiaries where there are no monetary findings.

³ In the first year of the program, the Commission authorized \$1.8 billion. In the second and subsequent funding years, the Commission authorized \$2.25 billion.

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In some cases, the resolution is pending policy guidance from the FCC. In cases where a recovery is due, USAC either has or is in the process of recovering the funds. USAC has indicated that they anticipate issuing a final report as soon as the resolution process is completed.

On December 27, 2002, USAC established a contract with a public accounting firm to perform agreed-upon procedures at a sample of seventy-eight (78) beneficiaries covering Funding Year 2000⁴. The sample of 78 was selected by the OIG. In a departure from the two previous 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 has conducted fieldwork at a number of the selected beneficiaries. The contract establishes that fieldwork will be completed for all beneficiaries by the end of May 2003 and that Agreed-Upon Procedures reports for each beneficiary will be provided to USAC by the end of June 2003.

In addition to reviews being conducted by auditors under contract to USAC, the USAC Internal Audit Division (IAD) has conducted several largely targeted audits of E-Rate beneficiaries. During calendar year 2002, USAC IAD has conducted audits of six (6) beneficiaries resulting in two (2) reports with clean/minor discrepancies, two (2) reports seeking recovery of commitments/disbursements, and two (2) reports resulting in referrals to federal law enforcement for investigation. In addition, USAC IAD conducted two (2) fraud investigation audits. Both of these reports were referred to federal law enforcement for investigation.

In addition to USAC's administrative oversight efforts, USAC audits have provided useful information regarding beneficiary compliance with program rules and regulations. The first two audits that they contracted for were not conducted in accordance with GAGAS. Since GAGAS provides specific and stringent guidance on steps that must be taken for a government auditor to rely on work performed by other auditors, we were unable to rely on the work that was performed. However, we utilized the results of these audits for audit planning and risk assessments purposes. With respect to the agreed-upon procedures review that USAC contracted for in December 2002, we anticipate performing the procedures necessary to determine the degree to which we can rely on the results of that work. We will discuss this effort further in the section on developments during the semi-annual reporting period.

OIG Oversight

During calendar year 2002, we started twenty-nine (29) audits of E-Rate beneficiaries and service providers. We intended to conduct these audits using in-house resources and four (4) auditors that were obtained from WCB on a temporary detail. Initially, it was our plan to use available resources to conduct audits at a portion of those beneficiaries selected when we performed audit planning with DCAA.

⁴ Funding year 2000 generally is the period of July 1, 2000 through June 30, 2001. However, in Funding Year 2000, implementation of non-recurring services eligible for discounts through the schools and libraries universal service support mechanism extends through September 30, 2001, and, in some cases, through September 30, 2002.

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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. 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. During the period from July 1998 through approximately June 2001, the service provider received more than \$9 million in E-Rate funds for goods and services provided to approximately 36 schools. Fourteen (14) of the audits that we initiated during calendar year 2002 are still in progress. Preliminary results indicate potential irregularities at many locations that may result in potential fund recoveries and further referrals for investigation. During the last semi-annual reporting period we completed one (1) of these audits and, during this reporting period, we completed two (2) more audits. We anticipate issuing most of the remaining reports during the next semi-annual reporting period. Copies of audit reports are available on the OIG web page located at www.fcc.gov/oig.

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 these 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/agreed upon procedures reviews. We are actively supporting fourteen (14) investigations and monitoring an additional (16) investigations. Allegations being investigated in these cases include the following:

- ◆ Procurement irregularities – lack of a competitive process
- ◆ False Claims – Service Providers billing for goods and services not provided
- ◆ Ineligible items being funded
- ◆ Misappropriation of assets
- ◆ Beneficiaries are not paying the local portion of the costs resulting in inflated cost 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.

⁵ Two of the auditors worked under a three-month detail ending March 3, 2002. Because of their involvement supporting an ongoing criminal investigation the detail was extended for two of the auditors through September 30, 2002. During the period when these auditors worked for OIG, the office from which the auditors were detailed was transferred to the Commission's Enforcement Bureau (EB).

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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. Additional information regarding our support for investigations is addressed when we discuss developments in USF oversight during the semi-annual reporting period below.

◆ **Developments during the Semi-Annual Reporting Period**

As we indicated in the opening section, there have been significant developments both inside and outside of the Commission that have a direct bearing on USF oversight. These developments include:

- ◆ Increased Congressional Interest
- ◆ Enhanced Strategic Planning for USF Oversight
- ◆ Memorandum of Understanding with the Department of the Interior OIG
- ◆ Contractor support in FY 2003
- ◆ Availability of Appropriated Funding in FY 2004
- ◆ Reorganization of the OIG to better meet the requirements of USF oversight
- ◆ Commission Attention on E-Rate Issues
- ◆ USAC Task Force on the Prevention of Waste, Fraud, and Abuse
- ◆ USF Management Issues

Increased Congressional Interest

There was an increase in the level of congressional interest in USF oversight during this semi-annual reporting period. As a result, we provided briefings to staff from the House Committee on Energy and Commerce on two occasions and provided a briefing for staff from the Senate Committee on the Judiciary and the Committee on Finance on another occasion. During these briefings, we provided information on FCC OIG involvement with the USF Program, audit and investigative activities, and what we have determined to be obstacles to effective implementation of oversight. In addition to briefing House and Senate staff, we provided additional information to House staff in response to informal requests and responded to a formal request from the House Committee on Energy and Commerce in response to a request that the Chairman of the FCC received on March 13, 2003.

Enhanced Strategic Planning for USF Oversight

In November 2002, the OIG completed a strategic plan for oversight of the USF. The strategic plan contains our short-range and long-range plans for oversight of the USF (the E-Rate component and other components of the fund). Several of the projects reflected in the strategic plan were included in our FY 2003 annual audit plan. We plan to conduct an audit of the competitive procurement process used by recipients of funding from the USF schools and libraries program to select service providers. We have determined, based on the results of audits that have been conducted and allegations that are being investigated, that improvements may be needed to address weaknesses in program requirements for competitive procurement.

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For example, the program requires that applicants comply with any applicable state and local procurement regulations, in addition to the FCC's competitive bidding requirements. However, private schools or other non-public entities may not be subject to state and local procurement rules, and therefore may not have an established procurement process or may not have a process that ensures competitive procurement of goods and services. The audit will include analysis of the competitive procurement process at a sample of E-Rate recipients, evaluation of those practices with program requirements, and an assessment of the effectiveness of those practices and program requirements in ensuring the best value is obtained. The objective of this audit is to evaluate weaknesses in the program area and identify opportunities for improvement.

In addition, we intend to conduct a survey of the USF High Cost program. This program provides \$2.98 billion in support to telecommunication carriers in high cost/rural service areas. The program has not been subjected to a comprehensive program of audit and oversight by this office. We will perform an audit survey of this program to identify areas of risk, potential vulnerabilities, and compliance with program requirements and regulations. The results of the survey will be used to design an oversight program to ensure the High Cost Program is not subject to fraud, waste and abuse. The strategic plan is intended to serve as a roadmap for implementing our oversight program. A copy of the strategic plan for oversight of the USF can be obtained from the OIG homepage located at www.fcc.gov/oig.

Memorandum of Understanding with the Department of the Interior OIG

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 reviews 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 perform these reviews using specified agreed-upon procedures 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 two-day training class for Department of the Interior auditors and provided subsequent training to DOI auditors and investigators during March 2003. We anticipate conducting approximately eight (8) reviews with DOI OIG in FY 2003.

Contractor Support in FY 2003

In March 2003, we signed a contract with a public accounting firm to provide audit support services for USF oversight to the OIG. This contract is a one-year contract ending in March 2004. During March 2003, we established two (2) task orders under the contract. The first task order is for a quality review of the agreed-upon procedures review work being performed by a public accounting firm under contract to USAC. As we indicated earlier, USAC established a contract with a public accounting firm to perform agreed-upon procedures at a sample of seventy-eight (78) beneficiaries covering Funding Year 2000. Under this contract, the agreed-upon procedures will be performed in accordance with both the Attestation Standards established by

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the AICPA Standards and Government Auditing Standards, issued by the Comptroller General (GAS). Although the work is being performed in accordance with GAS, these standards require that we perform procedures that provide a sufficient basis for reliance on the work being performed by the public accounting firm under contract to USAC. The purpose of the first task order is to perform those procedures and to determine the extent to which we can rely on the results of these reviews to assess program compliance by those recipients where the procedures were performed.

Under the second task order, the public accounting firm will perform a series of tasks to assist the OIG in enhancing the USF oversight program including developing and populating a database for tracking audit findings and resolution, performing a qualitative assessment of the OIG USF strategic plan, and preparing a capping report on the current status of E-Rate oversight.

Availability of Appropriated Funding in FY 2004

The Commission's FY 2004 budget estimate to Congress includes \$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 make inferences about the level of compliance with program requirements and recommendations that would benefit the program as a whole. 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.

Reorganization of the OIG to better meet the requirements of USF oversight

On March 9, 2003, the OIG reorganized and elevated responsibility for USF oversight to the Assistant Inspector General level by creating an Assistant Inspector General for USF Oversight. Previously, the responsibility for USF oversight was held by the Director of Program Audits and was in addition to the responsibilities of that position for oversight of other Commission programs and operations.

Commission Attention to E-Rate Issues

There was increased attention to E-Rate fraud, waste, and abuse issues by the Commission during the semi-annual reporting period. During the review period, the Wireline Competition Bureau developed an order establishing a debarment rule for the E-Rate program.

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On April 23, 2003, the Commission adopted a rule that persons convicted of criminal violations or held civilly liable for misconduct arising from participation in the program will be debarred from participation for three years and, where circumstances warrant, for a longer period. The Commission also clarified that requests for duplicative services will not be funded, and amended its rules to make clear that applicants must select the most cost-effective service offering. In addition to the rulemaking establishing a debarment rule, the Commission is examining opportunities for rule changes to strengthen compliance and oversight over the E-Rate program. On March 18, 2003, Commissioner Abernathy announced that she is organizing a public forum on improving administration of the E-Rate program. In the public notice announcing the forum, Commissioner Abernathy, who chairs the Federal-State Joint Board on Universal Service, stated that "(r)ecent meetings with school administrators and the Universal Service Administrative Corporation have convinced me that the FCC needs to take a hard look at whether our rules provide an adequate framework to avoid wasteful expenditures and prevent gaming of the system." Commissioner Abernathy added that "(w)hile our established procedures have successfully uncovered instances of program abuse, we need to consider changes to lessen the potential for waste, fraud, and abuse." The public forum is scheduled for May 8, 2003.

USAC Task Force on the Prevention of Waste, Fraud, and Abuse

On March 31, 2003, USAC announced the creation of a task force on the prevention of waste, fraud and abuse in the E-Rate program. The stated objective of the task force is to identify areas where improvements can be made in the support mechanism and in outreach and training and to recommend specific actions to combat potential waste, fraud and abuse by both service providers and applicants. USAC has stated that the task force will be composed of fourteen (14) members from the applicant and service provider communities and that the membership will include representatives from public and nonpublic elementary and secondary schools, libraries, state telecommunications networks, and providers of service in all three categories of services eligible under the support mechanism. USAC has indicated that the task force will produce a final report to USAC in early summer summarizing its recommendations.

USF Management Issues

During this reporting period, we continued to explore issues related to USF management. 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. Currently, 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. It is our opinion that formalizing certain administrative functions will strengthen the relationship between the Commission and USAC and result in more efficient and effective management of the fund. 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

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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 the last two semi-annual reports, we reported the lack of resources as an obstacle to implementation of effective program oversight. While we are confident 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 and will continue to encourage their consideration in discussions with FCC management and other appropriate officials.

Conclusion

In conclusion and as we have stated in previous semi-annual reports, we are addressing oversight of the Universal Service Fund on all fronts and will continue to do so. We believe we have made significant progress toward our goal of implementing an effective oversight program during this semi-annual reporting period and we are encouraged about the many positive developments since our last semi-annual report. However, we continue to have numerous concerns. The number of audits conducted to date does not allow us to make program inferences about beneficiary compliance with program requirements or to make audit recommendations for programmatic improvements. Meanwhile, the results of audits that have been performed and the allegations under investigation lead us to believe the program may be subject to and unacceptably high risk of fraud, waste, and abuse through noncompliance and program weaknesses. In addition, we remain concerned with the pace at which identifiable program improvements - such as enhanced requirements for competitive procurement - are being addressed.

Despite the positive developments during this reporting period, 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 2002 Financial Statement (Report 02-AUD-08-16),
January 31, 2003

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 guidance. 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. 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. This audit provides an opinion on the FY 2002 financial statements.

At the direction of the Department of the Treasury, FCC prepared consolidated financial statements in accordance with Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, and subjected them to audit. The financial statement was 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, performed the audit of the FCC's FY 2002 financial statements.

To fulfill our responsibilities under the CFO Act for ensuring the quality of the audit work performed, we conducted a review of CG-LLP's audit of FCC's FY 2002 financial statements in accordance with *Government Auditing Standards* and OMB Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.

Specifically, we:

- ◆ Reviewed CG-LLP's approach and planning of the audit
- ◆ Evaluated the qualifications and independence of its auditors
- ◆ Monitored the progress of the audit at key points
- ◆ Examined working papers and audit documents to evaluate compliance with *Government Auditing Standards* and OMB Bulletin No. 01-02
- ◆ Performed other procedures deemed necessary

Audits

Based on the results of our review, we determined CG-LLP planned, executed and reported the results of its audit according to applicable auditing standards. In our opinion, CG-LLP's work provides a reliable basis for the firm's opinion on FCC's FY 2002 financial statements.

Based on our review of the audit, we concur with CG-LLP's findings of reportable conditions related to internal control and instances of noncompliance with applicable laws and regulations. Accordingly, we concur with its reports thereon.

◆ **Opinion on the Financial Statements**

CG-LLP issued an unqualified opinion on FCC's FY 2002 consolidated balance sheet, statement of net cost, statement of changes in net position, statement of financing, combined statement of budgetary resources, and statement of custodial activity. CG-LLP opined, except for the effects of such adjustments to the FY 2001 consolidated balance sheet and statements of net cost, if any, as might have been necessary had CG-LLP been able to perform adequate audit procedures on the Local Number Portability Administration reporting entity, Universal Service Fund's collections and disbursements, and program costs' allocations, the financial statements and related notes referred to above present fairly, in all material respects, the financial position of the FCC as of September 30, 2002 and 2001, its net cost and custodial activity for the years then ended; and its changes in net position; budgetary resources; and reconciliation of net cost to budgetary resources for the year ended September 30, 2002 in conformity with accounting principles generally accepted in the United States of America.

In performing its internal control testing of controls necessary to achieve the objectives in OMB Bulletin No. 01-02, CG-LLP identified matters relating to significant deficiencies in the design or operation of FCC's internal control. In its opinion, these deficiencies could adversely affect the FCC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Specifically, these matters were categorized as material weaknesses and reportable conditions per definitions of the American Institute of Certified Public Accountants.

CG-LLP identified material weaknesses in the areas of:

- ◆ Financial Reporting
- ◆ Cost Accounting System
- ◆ Universal Service Fund Financial Reporting
- ◆ Auction Related Subsidiary System
- ◆ FCC Loan Subsidiary Ledgers
- ◆ Information Technology

CG-LLP identified additional reportable conditions, which include:

- ◆ Accounts Receivable and Related Revenues
- ◆ Auction Revenue Recognition Policy
- ◆ Revenue in Proper Accounting Period

Audits

- ◆ Obligation and Accounts Payable Activities
- ◆ Payroll Activities
- ◆ Debt Collection Improvement Act Reporting
- ◆ Compliance with Certain Aspects of the Ginger-Cohen Act of 1996
- ◆ OMB Circular Nos. A-127 and A-130 Reviews
- ◆ Federal Manager's Financial Integrity Act of 1982 Compliance and Reporting

FCC management is responsible for complying with laws and regulations applicable to the agency. To obtain reasonable assurance about whether FCC's financial statements are free of material misstatements, CG-LLP performed tests of compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the Federal Financial Management Improvement Act of 1996. As appropriate, CG-LLP limited its tests of compliance to these provisions.

Tests disclosed instances of noncompliance with specific laws and regulations required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02 as follows:

- ◆ Chief Financial Officer's Act of 1990
- ◆ OMB Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*
- ◆ Debt Collection Improvement Act of 1996
- ◆ Prompt Payment Act
- ◆ Government Performance and Results Act of 1993
- ◆ Federal Financial Management Improvement Act of 1996

In accordance with generally accepted government auditing standards, the Independent Auditor's Report prepared by CG-LLP is dual dated, January 3, 2003 and January 27, 2003.

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 due to concern that the FCC may not be receiving a fair return on contractors' money spent. Funds are set aside every year to ensure a reasonable share of contractors' money. This money is then audited on a spontaneous basis to assure that contractors' costs are accurate.

Labor costs are the leading costs charged to Commission contracts. 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. Along with labor being accurately recorded, it must get distributed in a timely manner.

Audits

The FCC works with 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 interview 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 DynCorp Information and Enterprise Technology, Inc. (Report 02-AUD-09-20), October 9, 2002

This review disclosed that DynCorp employees and subcontractors did not have their timesheets completed up to the previous day and that employee access to timesheets was neither restricted, nor were timesheets controlled documents. These deficiencies were found in a previous audit conducted in December 2001. Additionally, an employee said they did not receive training on proper timekeeping procedures and work assignment documents with charge codes were not provided.

These findings were discussed with management, who said they were implementing a new electronic timekeeping system and would provide training to employees on proper timekeeping procedures.

2. Report on Audit of Labor Charging and Timekeeping Practices of AAC Associates, Inc. (Report 02-AUD-09-22), January 15, 2003

For the second time in twelve months, employees were found not completing their time sheets on a daily basis, not filling in the "Project Number" section of their timesheet, and others were signing their timesheets in advance.

These findings were discussed with AAC's Accounting Manager, who agreed to take action to resolve the timekeeping deficiencies.

3. Audits of NeuStar, Inc. Revised Price Adjustment Proposal, (Report 03-AUD-01-02), October 30, 2002

As requested by the FCC Contracts and Purchasing Center, the Office of Inspector General has completed an audit of NeuStar, Inc's price adjustment proposal. The objective of this audit was to determine whether NeuStar's books and records support each element of the proposals, and that the costs are acceptable as a basis for negotiation. To conduct the audit, the OIG established a purchase order under our interagency agreement with DCAA.

NeuStar submitted its proposal for adjustment to the fixed-price agreement under the Third Report & Order for the North American Numbering Plan Association (NANPA) for the period December 1998 through June 2000. NeuStar claims it incurred additional costs when it processed central office code assignments exceeding its 120% assumed volume of 10,000 code assignments per year with NANPA.

Audits

DCAA qualified their opinion, primarily because of NeuStar's accounting system and records are not fully adequate to support the costs in their price adjustment proposal.

4. Report on Audit of NeuStar, Inc. Equitable Adjustment Proposals Under the Report and Order and Further Notice on the Proposed Rule Making Agreement, (Report 03-AUD-01-03), October 30, 2002

As requested by the FCC Contracts and Purchasing Center, OIG has completed an audit of five price adjustment proposals submitted by NeuStar, Inc. The submitted five proposals totaling \$541,993 for adjustment to the fixed-price agreement under the Report & Order and Further Notice of Proposed Rule Making for replacing the North American Numbering Plan Association (NANPA) Central Office Code Utilization Surveys (COCUS) process with the Number Resource Utilization Forecast (NRUF). NeuStar seeks compensation for costs associated with new data collection, processing, storage, and reporting requirements.

The objective of this audit was to determine whether NeuStar's books and records support each element of the proposals and that the costs are acceptable as a basis for negotiation. To conduct the audit, the OIG established a purchase order under our interagency agreement with DCAA. To accomplish the objectives of this audit, DCAA auditors:

- ◆ Reviewed NeuStar's internal controls, assessed control risk, and determined extent of audit testing needed based on the control risk assessment.
- ◆ Examined evidence supporting the amounts and disclosures contained in the price adjustment proposals, on a test basis
- ◆ Assessed the accounting principles used and significant estimates made by NeuStar
- ◆ Evaluated the overall price adjustment proposal presentations
- ◆ Determined the need for technical specialist assistance
- ◆ Evaluated the terms of the Report & Order and Further Notice of Proposed Rule Making
- ◆ Applied Cost Standards found in Federal Acquisitions Regulations (FAR) Part 31 in its evaluation

DCAA qualified their opinion because NeuStar did not have a job cost accounting structure during the performance period covered by the first proposal. DCAA questioned \$23,546 of NeuStar's five proposals totaling \$541,993. NeuStar representatives did not object to the findings in the auditor's draft report.

5. Report on Audit of AAC Associates, Inc. Billing System Internal Controls, (Report 02-AUD-09-21), March 25, 2003

OIG has completed an audit of the internal controls of the billing system used by AAC Associates, Inc. to accumulate and bill costs under government contracts. The OIG initiated this audit as part of our ongoing effort to improve the Commission's procurement process, and to ensure the timely delivery of services by its contractors.

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

The OIG established a purchase order under the Commission's interagency agreement with DCAA to conduct this audit.

As a result of the audit performed by DCAA, the auditors concluded, in their opinion, that AAC's billing and related internal control systems are adequate for providing billed costs to the government that are reasonable and compliant with applicable laws, regulations and contract terms. AAC's accounting manager concurred with the results of DCAA's audit.

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. FY 2002 Government Information Security Reform Act (GISRA) Evaluation,
(Report 02-AUD-02-06), January 6, 2003

The GISRA, which became effective on November 30, 2000, applies to all Federal agencies. A key provision requires that the Inspector General, or an independent evaluator chosen by the IG, perform an annual evaluation of the agency's information security program. KPMG, LLP was chosen to conduct the independent evaluation for FY 2002.

The FY 2002 independent evaluation encompassed a review of the Commission's security program, including, but not limited to, security policies, security architecture, business continuity, security capital planning, critical infrastructure, and security program planning and management.

Our independent evaluation for FY 2002 yielded several positive observations, including:

- ◆ FCC management has developed and implemented plans of action for each of the FY 2001 GISRA findings.
- ◆ Security plans were developed for the Commission's major applications and support systems.
- ◆ A strategic plan for the agency's IT program was started.
- ◆ A computer security plan is under development.

While the agency has implemented positive controls over its computer resources, areas for improvement of management, operational, and technical controls were identified. Implementing corrective action for identified weaknesses will increase the effectiveness of the agency's

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information security program and practices. FCC management will develop a plan of action for each finding identified during the FY 2002 evaluation.

2. Follow-up Audit of Computer Controls at the FCC Consumer Center, (Report 01-AUD-07-30), January 10, 2003

The purpose of this audit was to find out which findings from the prior audit were closed or open. The IG contracted with the public accounting firm of KPMG, LLP to complete this audit. By correcting the problems identified, the security of the Commission's Consumer Center information technology program will be strengthened.

Of the 103 findings in the original audit (No. 00-AUD-01-12), issued on June 21, 2000, 66 were reviewed. The other 37 were either duplicates or out of the scope of this audit. The follow-up audit identified 21 open findings and four new conditions.

Problems were found in the areas of Security Program Planning & Management, Access Control, Application Software Development and Change Control, System Software, Segregation of Duties, and Service Continuity.

OMD and CGB prepared a joint response to the report where they outlined corrective action and/or a milestone schedule for the implementation of corrective action. These technical control and internal control improvements will be made to improve security of the Consumer Center.

3. Follow-up Audit on Auction Physical Security at the Portals Site, (Report 02-AUD-03-11), March 4, 2003

On September 28, 1999, the OIG issued a report entitled, "Audit Report on the Auction Physical Security at the Portals Site." In that report, OIG noted that significant technical and internal control improvements could be made to improve the overall security of the Auctions site.

The objective of the follow-up audit is to assess the Commission's efforts to address audit observations and recommendations that were in the original report.

To accomplish these objectives, OIG contracted with the consulting firm Job Performance Systems (JPS). All the findings in the original audit were reviewed. Each finding has been categorized by risk.

The follow-up audit identified seven findings as open. Two have been identified as high risk, three as medium risk, and two as low risk.

We recommended that the problems we identified be corrected to strengthen the Commission's physical security program. Our recommendations will correct present problems and minimize future problems. OMD has either corrected the findings or outlined a plan of action to do so. We concur with OMD's assessment of the findings.

Audits

4. Report on the Follow-up Special Review of Web Page Accessibility, (Report 02-AUD-02-05), March 7, 2003

The Office of Inspector General has completed a review to determine how effective the Federal Communications Commission has been in providing access by the disabled to its Internet web sites. This was done in three ways:

- ◆ Re-examining the FCC web accessibility program
- ◆ Determining whether management corrected the deficiencies reported in OIG's report called "Special Review of Web Page Accessibility," dated January 19, 2001
- ◆ Reviewing other Commission web sites to review accessibility

In our opinion, the Commission has a proactive and effective web accessibility program supported by the Disabilities Rights Office (DRO) with the Consumer and Governmental Affairs Bureau (CGB), the Office of Media Relations (OMR), and the Information Technology Center (ITC) within the Office of Managing Director (OMD).

The International Bureau asked us to expand the scope of the audit and review the web pages of the International Bureau Application Filing and Reporting System (IBFS). We reviewed 62 pages; 61 of these pages had accessibility problems. In order to address these issues, IBFS must be redesigned to comply with Federal accessibility standards.

The Office of Managing Director and the Chief of the International Bureau concur with the findings of the review and have outlined the corrective action that will be taken.

5. Survey of Commission's Directive on Management of Non-Public Information, (FCCINST 1139), March 31, 2003

OIG completed its assessment of the Commission's compliance with the rules governing the handling and management of non-public information, as specified in the Commission's Directive on Management of Non-Public Information [FCCINST 1139].

The task was approached from two different perspectives—that of a designated Internal Security Officer (ISO) and that of an employee—to compare views. This task was done in two phases. Phase I had those responsible for managing the rules for handling non-public information fill out a questionnaire. Phase II consisted of conducting personal interviews with people responsible for following the policy.

The purpose of the questionnaire was to focus on the efforts various ISOs have taken to familiarize their offices with the directive. All said they had held training sessions, but that these sessions were often afforded to management personnel. During interviews, employees discussed their training and that of colleagues. Information given by employees was not completely compatible with what was stated by ISOs.

Audits

The results of our survey suggest that some changes may be needed. We recommend that a course be established for all employees to attend, that an employee awareness campaign be conducted, and that the Computer Security Officer make recommendations to OMD as to whether further action is necessary regarding a possible compromise of electronic information security.

6. Report on the Special Review of the E-Rate Program at Robeson County Public School System, (Report 02-AUD-02-04-13), February 3, 2003

The objective of this review 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. Robeson County Public School System is located in a rural region in North Carolina. The review encompassed the period from July 1, 1999 to June 30, 2000 (Funding Year 2 of the program) and evaluated the expenditure of \$8,828,413 in funding disbursements. The scope of this review was to test compliance with specific program requirements.

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

7. Report on Special Review of the E-Rate Program at Wake County Public School System, (Report 02-AUD-04-14), February 5, 2003

The objective of this special review was to assess the beneficiary's compliance with the rules and regulations of the USF program and to identify opportunities to improve the program. The Wake County Public School System is located in Raleigh, North Carolina. The review encompassed the period of July 1, 1999 to June 30, 2000 (Funding Year 2 of the program) and evaluated the expenditure of \$842,225 in funding disbursements. Based on the results of our review, the auditors have concluded that the Wake County Public Schools System is compliant with the requirements of the program for the funding year reviewed.

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

1. Physical Security at the Commission's Gettysburg, PA 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.

2. Audit of 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

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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.

3. Quality Control Review of Federal Trade Commission (FTC) OIG

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

4. Special Review of Workplace Violence—Data Collection and Analysis

This special review is being conducted as part of our ongoing investigation of the Commission's workplace violence prevention program. The objective of this special review is to conduct a survey of Commission employees for the purpose of establishing baseline measures for the Commission to use in evaluating its implementation of a comprehensive program of workplace violence prevention.

Another objective is to examine how the issues and concerns of Commission employees compare to other organizations.

5. Audit of Auction IT Capital Investment Practices

The Office of Management and Budget requested that OIG review information technology spending supporting spectrum auctions at the Commission. The objectives of this audit are to:

- ◆ Examine IT spending and identify those factors that have contributed to the increased cost of IT to support the Commission's auction program
- ◆ Evaluate the process by which the Commission has managed IT spending for the auctions program
- ◆ Determine the extent that the Commission has utilized IT capital procedures to manage large expenditures

6. Follow-Up of the Commission's Purchase Card Program

The objective of this audit is to assess compliance with established purchase card program policies and procedures. On May 16, 1999, OIG issued an audit report no. OIG 98-06 entitled "Report on the FCC Purchase Card Program," which concluded that cardholders were not complying with policies and procedures. This follow-up audit is the result of both procedure and recent Congressional interest.

To accomplish the objectives of the review, purchase card transactions will be selected and looked over at random, and both cardholders and management will be interviewed.

Management

External Audit of Quality Control

OIG contracted with the public accounting firm of Thompson, Cobb, Bazilio & Associates to conduct a review of the system of quality control for the audit function of the FCC's IG office. This review was conducted in conformity with the standards and guidelines established by the President's Council on Integrity and Efficiency (PCIE). Compliance with the OIG's system of quality control was tested to the extent considered appropriate.

The contractor opined that the OIG System was designed in accordance with the quality standards established by PCIE and provided it with reasonable assurance of material compliance with professional auditing standards in the conduct of its audits. As a result, an unqualified opinion was issued on our system of audit quality control.

Specialized Training and Activities

Kim Bumstead attended the Basic Non-Criminal Investigator Program in Glynco, Georgia. This is the initial phase of our four-year plan for all auditors on the staff to complete this critical course.

Tom Cline represented the Inspector General at the Annual PCIE-ECIE Retreat in St. Michael's, Maryland

Charles Willoughby attended the Annual Assistant Directors of Investigations Conference in Knoxville, Tennessee.

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

◆ Public Recognition

Tom Cline was recognized by the PCIE/ECIE for outstanding work on his risk assessment of the Commission's workplace violence program.

◆ Report Availability

The OIG reports can generally be obtained via the Internet from the OIG web page located on the FCC web site 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.

Management

◆ Internships

The Office of Inspector General 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 gets to see a student's excellent work performance that reflects both their youth and exuberance.

For more information about internships in OIG, go to their 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 the jurisdiction of the OIG is alleged, the complaint is usually referred to the appropriate FCC bureau or office for response directly to the complainant. A copy of the response is also provided to the OIG. Finally, matters may be referred to this office for investigative action from other governmental entities, such as the General Accounting Office, the Office of Special Counsel or congressional offices.

◆ Activity During This Period

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 eight cases have been closed. A total of thirty cases are still pending, twenty-six of which relate to the USF program. The OIG continues to monitor and coordinate activities regarding those twenty-six. Investigations with respect to the other four non-USF pending cases are ongoing.

◆ Statistics

Cases pending as of September 30, 2002.....	30
New cases.....	8
Cases closed.....	8
Cases pending as of March 31, 2003.....	30

Investigations

◆ Significant Investigative Case Summaries

The OIG initiated an inquiry into allegations of misconduct by a Commission employee with respect to the processing of complaints against a ham radio operator. Specifically, among other things, it was alleged that the employee knowingly initiated enforcement action against the operator in violation of a court order and based on improperly acquired information. Through investigation, the OIG determined that the initiation of the enforcement action by the employee amounted to the performance of his official duties and the court order did not place restrictions on the performance of those duties. Further, the OIG determined that there was insufficient evidence to establish that the complaints were based on improperly acquired information or that the employee in some way misused that information. Accordingly, the OIG found no evidence of employee misconduct and the matter was closed.

The OIG has initiated an investigation into allegations of the possible release of non-public information related to the Commission's consideration of spectrum caps. Specifically, it was alleged that information contained in a draft agenda item and briefing materials were orally disclosed to person outside the Commission. It was further alleged that a member of the public associated with a telecommunications trade association made references to the contents of the documents in question in the course of a telephone conversation with an employee of the Commission. The information in question, which appeared in several newspaper articles, consisted of the cap limit and the period of time that the cap or limit would be in effect. One of the articles cited by name an individual associated with a telecommunications entity as the source of the information. As part of the investigation, the OIG conducted interviews of Commission personnel and persons outside of the Commission. Additionally, documents were reviewed. The individual who purportedly referred to the information in a telephone conversation, among other things, denied receiving any information about the matter from sources within the Commission. The individual who was cited as a source in one of the articles, claimed that he had gotten the information from a prior article and not from anyone within the Commission. All other persons interviewed either denied disclosing the information or being given the information by any Commission personnel. Based on the investigation, the OIG was unable to conclusively determine the source of the information and the matter was closed.

The OIG initiated two inquiries into allegations of the possible release of nonpublic information related to the Commission's consideration of the Echostar/DirectTV merger and cable ownership limits. Specifically, it is alleged that staff recommendations with respect to the merger and ownership matters, respectively were released to individuals outside of the Commission. Both of these inquiries are currently pending.

The OIG initiated an inquiry into allegations that preferential treatment had been improperly extended to a licensee with respect to orbital/spectrum resources. Through investigation, it was determined that the matter related to the merits of issues under administrative consideration by the Commission. The OIG found no evidence of employee misconduct and the matter was closed.

Investigations

The OIG initiated an inquiry into allegations that the Commission had failed to respond to a citizen's Freedom of Information (FOIA) request. Through investigation, it was determined that a partial response was made to the citizen and a complete response was not made due to an oversight. A complete response was subsequently made. Accordingly, the OIG found no evidence of employee misconduct and the matter was closed.

The OIG initiated an investigation into allegations that a Commission employee has improperly used his computer workstation to access pornographic and other non-work related sites. The 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.

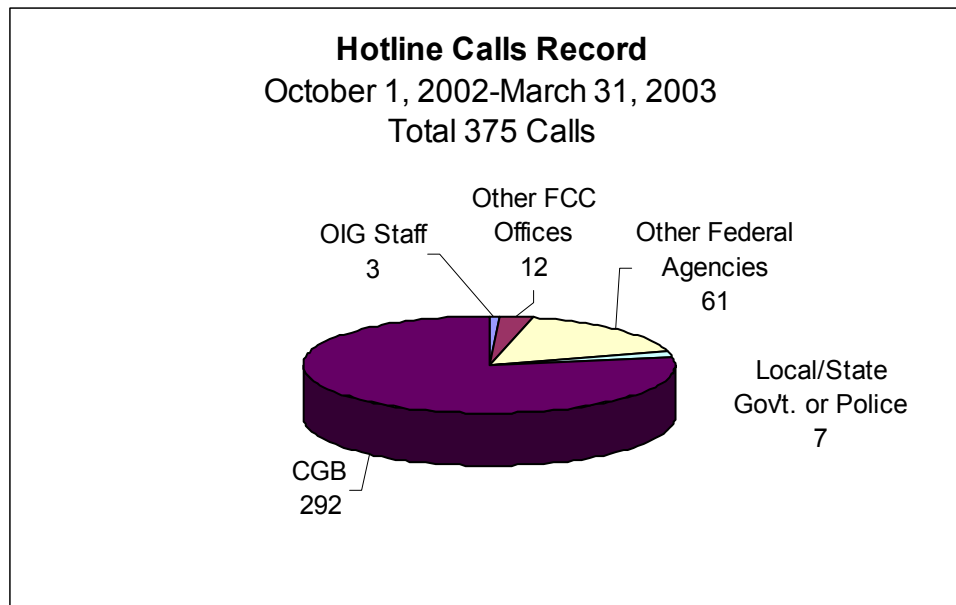
During this period, this office continued to monitor those legislative proposals, which directly or indirectly impact on the ability of Designated Federal Entity IGs to function independently and objectively. The primary piece of legislation monitored during this period was the legislation granting statutory law enforcement authority to certain designated OIGs. While this office was not among the designated OIGs, the legislation was and will continue to be monitored with respect to any possible indirect impact that it may have on this office's operations. It is important to note that, among other things, under the legislation non-designated OIGs may apply for statutory law enforcement authority on an ad hoc basis. Also, under the legislation, there are peer review requirements for the designated OIGs that may have an impact on the non-designated OIGs.

With the enactment of the Accountability for Tax Dollars Act of 2002, the FCC is required to compile financial statements and subject them to audit per the Chief Financial Officers Act of 1990, as amended. The OIG has audited FCC's financial statements since fiscal year 1999. The OIG is working diligently with FCC management to re-engineer compilation and audit processes to meet accelerating due dates as set by the Office of Management and Budget.

IG Hotline

◆ Hotline Calls

During this reporting period, the OIG Hotline Technician received 375 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.



*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 two through ten.

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

Refer to the section of the semiannual report entitled "Universal Service Fund" on pages two through ten.

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.

Two cases associated with the Commission's Universal Service Program have been referred to the Department of Justice.

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

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

6. A listing, subdivided according to subject matter, of each audit report issued by the Office during the reporting period, and for each audit report, where applicable, the total dollar value of questioned costs (including a separate category for the dollar 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.

Specific Reporting Requirements of the Inspector General Act

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	Number of Re- ports	Ques- tioned Costs	Unsup- ported Costs
A. For which no management decision has been made by the commencement of the reporting period.	1	-	\$253,453
B. Which were issued during the reporting period	-	-	-
Subtotals (A + B)	1	-	\$253,453
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.	1	-	\$253,453
Reports for which no management decision was made within six months of issuance.	1	-	\$253,453

OIG Audit Reports With Recommendations That Funds Be Put To Better Use

Table II.

Inspector General Reports With Recommendations That Funds Be Put To Better Use	Number of Reports	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	-	-
B. Which were issued during the reporting period.	-	-
Subtotals (A + B)	-	-
C. For which a management decision was made during the reporting period.	-	-
(i) Dollar value of recommendations that were agreed to by management.	-	-
- Based on proposed management action.	-	-
- Based on proposed legislative action.	-	-
(ii) Dollar value of recommendations that were not agreed to by management.	-	-
D. For which no management decision has been made by the end of the reporting period.	-	-
For which no management decision was made within six months of issuance.	-	-