FEDERAL COMMUNICATIONS COMMISSION

OFFICE OF THE INSPECTOR GENERAL

Semiannual Report to Congress

April 1, 2008 - September 30, 2008

Kent R. Nilsson
Inspector General

The Federal Communications Commission
(left to right)
Deborah Taylor Tate, Commissioner; Michael J. Copps, Commissioner; Kevin J. Martin, Chairman; Jonathan S. Adelstein, Commissioner; Robert M. McDowell, Commissioner

MEMORANDUM

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: October 31, 2008

REPLY TO
ATTN OF: Inspector General

SUBJECT: Semiannual Report

TO: Chairman, Federal Communications Commission

In accordance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. 3 § 5, I have attached my report summarizing the activities and accomplishments of the Office of the Inspector General ("OIG") during the six-month period ending September 30, 2008. In accordance with Section 5(b) of that Act, it would be appreciated if this report, along with any associated report that you prepare as Chairman of the Federal Communications Commission ("FCC"), were forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

During this reporting period, OIG activity focused most intensively on investigations, audits and Universal Service Fund ("USF") oversight. This report describes audits that are in process, as well as those that have been completed during the preceding six months. OIG investigative personnel continued to address issues referred to, or initiated by, this office. Where appropriate, investigative and audit reports have been forwarded to the Commission's management for action.

Information developed during this reporting period, including the initial results from the second round of USF audits, indicates that closer scrutiny of USAC's management, processes, controls and self-improvement efforts is needed. Closer co-ordination by USAC with the FCC's Managing Director and the Chief of the FCC's Wireline Competition Bureau should improve remediation and transparency and facilitate further improvements in the administration of USAC's programs. Similarly, closer co-ordination by NECA's management with the FCC's Managing Director and with the Chief of the Consumer and Governmental Affairs Bureau should improve the operation of the Commission's Telecommunications Relay and Video Relay Services program.

This office remains committed to maintaining the highest possible standards of professionalism and quality in its audits, investigations, inspections and consultations and we welcome any comments or suggestions that you might have. Please let me know if you have any questions or comments.

Kent R. Nilsson
Inspector General

Enclosure
cc: FCC Chief of Staff
FCC Managing Director

TABLE OF CONTENTS

INTRODUCTION 3

OIG MANAGEMENT ACTIVITIES 5

Office Staffing 6

Office Modernization 7

Internship Program 8

Legislative and Policy Matters 8

AUDIT ACTIVITIES 11

Financial Audits 12

Performance Audits 14

Universal Service Fund (USF) Oversight 17

INVESTIGATIONS 27

Activity During this Period 29

Significant Investigation Case Summaries 30

OIG Hotline 36

REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT 39

Section 5(a) 40

OIG Reports with Questioned Costs 42

OIG Reports with Recommendations that Funds Be Put To Better Use 43

INTRODUCTION

The Federal Communications Commission ("FCC") is an independent regulatory agency, with authority delegated by Congress to regulate interstate and foreign communications by radio, television, wire, satellite and cable. The FCC's jurisdiction covers the fifty states, the District of Columbia, the Commonwealth of Puerto Rico and all U.S. territories.

The FCC consists of a Chairman and four Commissioners, who are appointed by the President and confirmed by the United States Senate. Kevin J. Martin serves as Chairman. Michael J. Copps, Jonathan S. Adelstein, Deborah Taylor Tate and Robert M. McDowell serve as Commissioners. Most of the FCC's employees are located in Washington, D.C. at the Portals II building, which is located at 445 12th St., S.W., Washington, D.C. Field offices and resident agents are located throughout the United States.

The Office of the Inspector General ("OIG") is dedicated to ensuring compliance with the requirements of the Inspectors' General Act and assisting the Chairman in his continuing efforts to improve the effectiveness and efficiency of the Federal Communications Commission. The Inspector General ("IG"), Kent R. Nilsson, reports directly to the Chairman. The IG's staff consists of accountants, attorneys, auditors, economists, and investigators. Principal assistants to the IG are: David L. Hunt, Assistant Inspector General ("AIG") for Investigations/General Counsel; Curtis Hagan, AIG for Audits; William K. Garay, AIG for Universal Service Fund Oversight; Thomas Cline, AIG for Policy and Planning; and Harold Shrewsberry, AIG for Management.

This semiannual report includes the major accomplishments and activities of the OIG from April 1, 2008 through September 30, 2008, as well as information on the IG's goals and future plans.

Did you know?

FCC Commissioners and staff will visit over 100 places before 2/17/09 to discuss the DTV transition.

OIG MANAGEMENT ACTIVITIES

OFFICE STAFFING

OFFICE MODERNIZATION

INTERNSHIP PROGRAM

LEGISLATIVE & POLICY MATTERS

OIG MANAGEMENT ACTIVITIES

OFFICE STAFFING

Additional personnel, as well as funding to support the work of the Office of Inspector General ("OIG," or "Office"), are essential to meeting the objectives of the Inspector General Act and fulfilling the responsibilities of the Inspector General ("IG") that are contained in section 0.13 of the Commission's rules. So far, it has been possible to make progress because of the willingness of the Chairman and his staff to support the work of this Office. The Office is now comprised of 29 professionals, three support personnel and two interns. With each addition, the professional training, experience and personal commitment to improving the administration of the Commission's programs and eliminating fraud, waste and abuse has increased. Additional personnel are being added to meet the increasing demands that are being placed on this Office as the Commission's programs increase in size and complexity.

The IG has been interviewing and selecting candidates for management, attorney, auditor, and investigator positions authorized by the FY2008 budget for the Universal Service Fund ("USF") oversight mission. Within the current reporting period, the IG has hired six new employees and selected an additional five that will start over the next five weeks. Candidates are still being interviewed and that process will continue until the IG has reached the level of staffing required to effectively perform the USF oversight mission. These new four year term employees more than double the size of the IG's current staffing level. In addition to hiring USF funded term employees, the IG has added two full time equivalent employees. The IG continues to support the Federal Communications Commission intern program and is hiring one full time intern and one half-time intern to fulfill critical administrative functions associated with an expanding staff and workload.

Our professional staff consists of well-trained, seasoned professionals, most of whom have one or more professional certifications. We support their efforts to expand their bodies of knowledge and professional recognition, and the Chairman has funded examination preparation for the Certified Public Accountant and Certified Information System Security Professional designations as well as other professional training programs. In our continuing efforts to increase the expertise of our audits and investigative staffs, members of this

Office have also attended classes at the Inspector General Criminal Investigative Academy, other Federal Inspectors General training programs, master's level classes at colleges and universities, and other training programs. In addition, we have leveraged our expertise in accounting and auditing to revitalize the FCC's professional training for the Commission's Certified Public Accountants, thereby contributing to improving the quality of professional education available to all of the Commission's accountants. During this reporting period, Sophila Jones, Robert McGriff, and Sharon Spencer were awarded the Certified Government Financial Management designation.

Subsequent to this reporting period, the USF oversight auditing team led by Bill Garay, AIG for Universal Service Fund Oversight, received the Executive Council on Integrity and Efficiency's prestigious Excellence in Auditing Award for USF auditing work performed during this reporting period. The award was presented to the team on October 21.

OFFICE MODERNIZATION

We reported in the past that the IG had decided to modernize the Office to insure that the OIG will be able to address the oversight activity anticipated for the Universal Service Fund, as well as financial statements and information technology audits of the FCC and its external program segments, financial controls audits of the FCC and its external program segments, and a steadily increasing volume of complex investigations. As noted above, the IG received funding that was approved by the Commission, the President and Congress to improve the OIG's Universal Service Fund oversight mission. These funds are providing the IG with resources to increase the number of auditors and investigators performing this critical mission. The OIG has been purchasing software and information technology equipment that will aid auditors and investigators in accomplishing their mission.

We continue to implement the Knowledge Management System discussed in previous semiannual reports. This new system will increase the OIG's ability to manage audits, investigation case files, documents, reporting data and project tracking activities while coordinating hundreds of audits and related investigations. Information gathered during the fiscal year 2007/2008 audits of the USF disbursements for FY 2006 provided

information that will further assist in the development and implementation of the system and thereafter allow the system to move to full operation. The OIG Knowledge Management System will also provide a "real time" overview of audit and investigation status and project milestones. Additionally, we have procured global positioning system devices for auditors and investigators to use when performing field operations and the addition of inexpensive portable scanners will enable auditors and investigations to immediately transmit data to the OIG Knowledge Management System for use by other personnel.

The IG is physically relocating the OIG to accommodate the new hire expansion. This relocation will take place over the next several months and ultimately provide the IG with a centralized controlled office environment that is somewhat isolated from other FCC offices. The IG's goal is, eventually, to preclude other personnel from unauthorized entry into the OIG to protect sensitive data and information.

.

INTERNSHIP PROGRAM

The OIG welcomes college interns during the fall, spring and summer semesters. Most of these students take their internships for credit. Recent interns have come from schools across the country including American University, Arizona State University, DePauw University, Georgetown University, Hamilton College, James Madison University, Marymount College, Long Island University, North Carolina State University, Purdue University, the University of California at Berkeley, the University of California at Davis, the University of Maryland Law School, the University of North Carolina, and Xavier University.

These internships have proven to be rewarding experiences for all participants. Students leave with a good understanding of how a government agency operates, and they have the opportunity to encounter challenges while enjoying the rewards that can come from public service. In turn, the Office has benefited from the students' excellent work performance that, in part, has reflected their youth, exuberance, and special skills.

LEGISLATIVE & POLICY MATTERS

Pursuant to section 4(a)(2) of the Inspector Gen-

eral Act of 1978 (IG Act), 5 U.S.C.A. App. 3 § 4(a)(2) as amended, our Office monitors and reviews existing and proposed legislation and regulatory proposals for their potential impact on the OIG and the FCC's programs and operations. Specifically, we perform this activity to evaluate the potential of legislative initiatives for encouraging economy and efficiency while helping to reduce fraud, waste, abuse, and mismanagement. During this reporting period, the Office monitored legislative activities affecting the activities of the OIG and the FCC. The Office also monitored legislation and legislatively related proposals that may, directly or indirectly, affect the ability of IGs to function independently and objectively. We continued to monitor the Inspector General Reform Act of 2008 (H.R. 928). In addition to legislation, the OIG continuously monitors FCC policy development and provides input as appropriate.

FCC Headquarters Building
Portals II Building

Did you know?

Since 2004, OIG has recommended nearly $85 million in recoveries in audits of the USF.

AUDIT ACTIVITIES

FINANCIAL AUDITS

PERFORMANCE AUDITS

UNIVERSAL SERVICE FUND OVERSIGHT

AUDIT ACTIVITIES

FINANCIAL AUDITS

Financial statement audits provide reasonable assurance as to whether the agency's financial statements are presented fairly in all material respects. Other objectives of financial statement audits are to provide an assessment of the internal controls over transaction processing for accurate financial reporting and an assessment of compliance with applicable laws and regulations.

Audit of the Federal Communications Commission Fiscal Year 2008 Consolidated Financial Statements

In accordance with the Accountability of Tax Dollars Act of 2002, the Federal Communications Commission (FCC) prepared consolidated financial statements for the 2008 fiscal year in accordance with Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and subjected them to audit. The Chief Financial Officers Act of 1990 ("CFO Act"), as amended, requires the FCC Inspector General (IG), or an independent external auditor selected by the Inspector General, to audit the FCC financial statements in accordance with government auditing standards issued by the Comptroller General of the United States ("GAGAS"). Under the direction of the Office of Inspector General, Clifton Gunderson LLP, an independent certified public accounting firm, is performing the audit of FCC's FY 2008 consolidated financial statements. The audit is being performed in accordance with GAGAS, OMB Bulletin 07-04 as amended, and applicable sections of the U.S. Government Accountability Office (GAO)/President's Council on Integrity & Efficiency (PCIE) Financial Audit Manual.

This audit is currently in progress.

Oversight of USAC's 2007 Financial Statement Audit

The OIG performed oversight of the Universal Service Administrative Company's ("USAC") 2007 Financial Statement Audit and Agreed-Upon Procedures related to USAC operations. Section 54.717 of the Commission's rules requires USAC, the Universal Service Fund Administrator, to obtain an annual audit that examines its opera-

FINANCIAL AUDITS

tions and books of account to determine whether the USAC is properly administering the universal service support mechanisms to prevent fraud waste and abuse. In response to this requirement, USAC, in consultation with the Office of Inspector General, contracted with PriceWaterhouseCoopers LLP ("PwC") to perform an audit of USAC's 2007 Financial Statements and to perform Agreed-upon Procedures established by USAC and FCC.

The 2007 USAC financial statement audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States. PwC issued an unqualified opinion on USAC's financial statements and issued a report on Internal Controls over Financial Reporting and on Compliance and Other Matters. The report on Internal Controls over Financial Reporting and Compliance and Other Matters identified two weaknesses in internal controls over financial reporting that need to be remedied. PwC reported that a material weakness existed in USAC's accounting for the allowance for doubtful accounts ("ADA") for the USF receivable accounts. In this regard, the auditors recommended that USAC take corrective action to ensure that the most recent historical trend data is utilized when calculating the ADA for USF receivables. The report also noted a significant deficiency in USAC's accounting for fixed assets. The PwC recommended that USAC implement corrective action to ensure that an accurate fixed assets subsidiary ledger is maintained throughout the year.

The Agreed-Upon Procedures (AUP) for the year ended December 31, 2007 performed by PwC was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The procedures included a review of USAC's administration of the USF program, corporate governance, USAC's information technology environment, and a review of select activities of the High Cost, Low Income, Rural Healthcare and Schools and Libraries Support Mechanisms. The auditors noted several exceptions during the performance of the AUP. The FCC has directed USAC to develop corrective actions to address each of the AUP exceptions noted by PwC.

AUDIT ACTIVITIES

PERFORMANCE AUDITS

Performance Audits

Performance audits are systematic examinations that are conducted to assess the performance of a government program, activity, or function so that corrective action can be taken, if appropriate. Performance audits include audits of government contracts and grants with private sector organizations, as well as government and non-profit organizations that determine compliance with contractual terms, Federal Acquisition Regulations ("FAR"), and internal contractual administration.

Telecommunications Relay Service

The Telecommunications Relay Service ("TRS") Fund compensates communication service providers for the costs of providing interstate telephone transmission services that enables a person with hearing, or speech disabilities to use such services to communicate with a person without hearing or speech disabilities. Distributions from the fund have grown substantially in recent years which has increased the risk of fraud and improper payments. The fund's initial annual allotment for disbursements was $30.8 million, which increased over the next six years to $38 million in 1999. The TRS Fund has increased approximately 50-80% each year since then to reach $637 million for the TRS Fund's fiscal year from July, 2007 to June, 2008. In the current fiscal year, from July, 2008 to June, 2009, the size of the TRS Fund is projected to grow to $805 million. This is an increase of 26% from the previous fiscal year

During this reporting period, an Independent Public Accountant ("IPA") under contract to the Office of Inspector General ("OIG") completed performance audits of seven TRS providers who collectively received approximately 15 percent of TRS payments made between 2006 and 2007. The IPA was unable to complete the audit of the eighth provider because that provider did not supply the IPA with information that validated the accuracy of the TRS costs and minutes of service billed to, and received from, the TRS fund by that provider.

The audits were conducted to determine whether the Relay Service Data Requests and the monthly reports of relay service minutes that were certified and submitted by the TRS providers were: (i) in

PERFORMANCE AUDITS

compliance with applicable laws and regulations; and (ii) supported by sufficient documentation to warrant reimbursement with federal funds.

The worked performed by the IPA found that TRS providers' processes for accumulating and reporting minutes of services provided and related costs were not always adequate. This resulted in some TRS providers being paid for unallowable minutes of service from the TRS Fund.

The audit work also concluded that methodologies used by the TRS providers for accumulating and reporting minutes of services provided and related costs were not uniform. This increased the risk that unreasonable, unallowable, unnecessary and inaccurate costs were considered in the rate used to reimburse providers from the TRS fund. These risks could result in rapid cost growth and require higher funding rates. Management has taken steps to strengthen oversight of the TRS Fund. However, additional policies are needed to establish cost standards in order to control costs, and stronger sanctions are needed to combat fraud and abuse. Also, more effective internal controls are needed to improve the operation and administration of the TRS program by the National Exchange Carrier Association, Inc. Finally, with a compensable rate of at least $376.11 per reportable hour for VRS services (the maximum hourly rate is $404.17) and a median rate of pay for a VRS interpreter of $ 17.79 per hour (as of October 29, 2008), there would appear to be approximately $358.32 or more of gross margin per reportable hour to cover the other costs associated with the provision of VRS telecommunications services. That hourly margin, when compared with the costs of broadband services, suggests that the FCC needs to look much more closely into the allowable expenses and the capital costs that underlie the cost projections that VRS providers submit to the FCC in setting the rates that VRS providers receive per allowable minute of reported service. Management initiated a broad examination into ways for improving the management, administration, and oversight of the TRS Fund and should consider adopting additional, and more effective, cost controls.

AUDIT ACTIVITIES

PERFORMANCE AUDITS

Review of Processes for Filing Public Comments, Consumer Inquiries and Complaints

In providing service to the public, the FCC receives comments and reply comments in FCC proceedings and provides informal mediation and resolution of consumer inquiries and complaints. During this reporting period, KPMG LLP, under contract to the OIG, completed its assessment of the effectiveness of FCC controls that were in place for processing the filing of public comments, consumer inquiries and complaints. This review concluded that although the FCC has taken several steps to improve these processes, additional improvements are needed. FCC management agreed with the findings and recommendations in part, while noting that the FCC has made significant improvements in this area and continues its work in developing additional improvements.

Fiscal Year 2008 Federal Information Security Management Act Evaluation and Risk Assessment

In accordance with the Federal Information Security Management Act ("FISMA"), the independent certified public accounting firm of Clifton Gunderson, L.L.P. ("CG-LLP") was engaged to perform the annual evaluation of the FCC's information security programs and practices. CG-LLP tested the effectiveness of security controls for a subset of the Commission's systems and the FCC's privacy management. CG-LLP reported on September 12, 2008 that the FCC has an established information security program and has been reviewing security controls and identifying areas to strengthen this program. Nonetheless, there were findings for which corrective action was recommended that relate to information security administration, logical access controls, application software development and change controls, continuity of operations controls, and contractor monitoring and oversight. None of the weaknesses, either individually or collectively, were deemed to be a significant deficiency as that term has been defined by OMB reporting instructions for FISMA reviews (Memorandum M-08-21). FCC management generally concurred with the recommendations and stated that it is committed to continually strengthening the in-

ternal controls of the Commission.

Assessment of FCC Information Technology Project Management

Total Systems Technologies Corporation ("TSTC"), under contract to the OIG, performed an independent assessment of Information Technology Project Management ("ITPM") at the FCC. As part of this assessment, TSTC base-lined current project management practices against government maturity models/standards and identified areas for improvement. In performing this assessment, TSTC also identified key project management components affecting project performance and examined FCC performance factors, measures, and metrics in relation to their correlation with project success. TSTC provided recommendations to improve performance on different types of FCC information technology ("IT") projects as well as overall information technology project management. TSTC concluded that the Office of Managing Director, as an organization, has taken positive steps in developing an ITPM framework. FCC management generally concurred with TSTC's recommendations and stated that it is committed to continually strengthening the IT investment and project management processes at the Commission.

USF Oversight

In the last semiannual report, dated April 30, 2008, we provided an update on the oversight activities of the USF program including Rounds 1 and 2 of attestation engagements of USF beneficiaries. This report provides updates to those efforts as well as progress on Round 3 audits.

The Office of Inspector General continues to oversee a Universal Service Administrative Company ("USAC") administered effort to perform attestation engagements of the USF program beneficiaries. USAC entered into contracts with twelve public accounting (audit) firms to perform these engagements. Attestation audits are being performed to comply with the Improper Payment Information Act of 2002 (Public Law No. 107-300) ("IPIA") and Generally Accepted Government Auditing Standards. IPIA implementation is a

component of the President's Management Agenda which is directed to reducing erroneous payments in the federal government. Agencies are required to review all programs and activities they administer and identify those which may be susceptible to significant erroneous payments. IPIA defines significant erroneous payments as annual erroneous payments in any federal program that exceeds both 2.5 percent of program payments and $10 million.

These attestation engagements also address our obligation to comply with the Inspector General Act of 1978, as amended which, in relevant part, charges Inspectors' General with the responsibility for developing measures to detect and prevent fraud, waste, and abuse in federal government programs.

For Rounds 1, 2, and 3 we used statistical sampling techniques to provide the number and identity of beneficiaries subject to attest audits. Round 1 attestation engagements of the four USF support programs were completed. They were:

- High Cost Program
- Schools and Libraries Program
- Low Income Program
- Rural Health Care Program

Additionally, attestation engagements of contributors to the USF were performed.

Results from Round 1 are provided in the IG's October 3, 2007 reports. Briefly, those results indicated that the High Cost, School and Libraries, and Low Income programs are at risk based on IPIA criteria. Results of the audits of contributors indicate room for improvement in the management of this contribution revenue.

Based on Round 1 results, we proceeded to again perform audits ("Round 2 audits") but only on two USF funding categories, Schools and Libraries and High Cost. Based on random statistical sampling we selected 260 Schools and Libraries Program and 390 High Cost Program beneficiaries. These attestation engagements were performed by 12 public accounting firms under contract with USAC with oversight by the OIG.

The improper payment (IPIA) data results from Round 2 have been delivered by the audit firms. Field work on 649 of the 650 Round 2 attest audit

reports have been submitted to USAC for quality review and approval. The preliminary statistical analysis of improper payments by the OIG determined that Schools and Libraries and High Cost Programs will again exceed the IPIA thresholds and are considered at risk programs. As a result, OIG performed additional stratified statistical samples of beneficiaries in the Schools and Libraries and High Cost Programs resulting in a third round ("Round 3") of attestation engagements. USAC is in process of contracting for the audit services to conduct Round 3.

In Round 3, we intend to return to auditing on all four USF support programs as well as contributions. At this point, we have developed the sample size and identified the beneficiaries of the High Cost and Schools and Libraries Funds to be attest audited.

The results from Round 1 and the preliminary results from Round 2 have not lessened our concern about the possibilities for fraud, waste, and abuse in the Commission's USF programs as administered by USAC. As a result, OIG has enhanced the quality of its oversight of the USF programs including the attestation engagements of the Round 3 efforts.

For the Round 3 attestation efforts we have, or will shortly effect, a number of changes to improve efficiency and effectiveness. We are hiring to increase our professional auditing staff from 5 to 18. This will improve our ability to directly oversee audit activity, especially in the field where audit activity critical to the quality of information gathered occurs. We plan to increase our field presence by 200% over Round 2. We hired a subject matter expert in the High Cost Program to better assess and recommend solutions to USF program challenges.

We revamped the program to train audit firms. This new training program is audit focused and, in particular, emphasizes lessons learned, generally accepted government auditing standards, American Institute of Certified Public Accountants Statement on Standards for Attestation Engagements, and effective auditing methods and techniques.

Working with the telecommunications industry and state associations, we have begun workshops to educate beneficiaries directly regarding the

High Cost Program and the attestation examination process. Our purpose is to reduce the number of attest findings, thereby reducing the error rate and erroneous payments. With the addition of audit personnel, it also became possible to institute procedures to followup on findings resulting from all attestation engagements. This will allow us to improve the audit process from the perspectives of efficiency, timeliness and effectiveness.

As stated in the last Semiannual Report, Round 1, which consisted of 459 attestation engagements, was completed except for 48 of the 90 contributor attestation engagements. As of this reporting period, all audit reports including the 48 remaining contributor reports are complete. Details on those contributor audits with recommended funds for recovery of $1.5 million are contained in Table I. Further, as reported above, IPIA data results from Round 2 have been delivered by the audit firms and USAC is in the process of determining potential recoveries of USF funds from those audits. Several of those audits have been subjected to USAC's quality assurance process and are near finalization. As of the end of the reporting period, the audit firms have reported on an additional 12 high cost fund beneficiaries and identified improper payments totaling $360,378 at eight of those locations (see Table II for details). Also, USAC has identified preliminary potential funding recoveries totaling $1,225,621 at 22 schools and libraries beneficiaries. Please see Table III below for details.

These statistical analyses of the USF programs and targeted attestation engagements will improve the application of investigative and audit resources and yield information to the Commission that will enable it to improve the administration of these programs and further reduce fraud, waste and abuse.

Support to Investigations

In addition to the audit component of our oversight program, we have provided, and continue to provide, audit and investigative support to United States Department of Justice investigations of E-rate and High Cost fund recipients. To implement the investigative component of this effort, we developed a working relationship with the Antitrust Division of the Department of Justice ("DOJ"). The Antitrust Division, in

(continued on page 24)

AUDIT ACTIVITIES

TABLE I: USF Audits Finalized during SAR Reporting Period				
Carrier Name	Filer ID #	Expected Contribution Change	USAC Board Approval of Audit	Headquarters State
South Carolina RSA #2 Cellular	818464	$0	6/6/2008	AR
Waterloo Cedar Falls CellTelCo	802752	$4,191	6/6/2008	IL
American Telesis	821260	$43,119	6/6/2008	SC
Denton Telecom	822850	$0	6/6/2008	TX
Ellington Telephone	805692	$0	6/6/2008	MO
Madison River Communications	820646	$354,336	6/6/2008	LA
Mobilfone Service Inc	820284	$0	6/6/2008	WV
N Touch Communications	824594	$0	6/6/2008	TN
Navajo Tribal Utility	825696	$0	6/6/2008	AZ
New Hope Telephone Cooperative	805623	$0	6/6/2008	AL
Ocala Communication	825636	$0	6/6/2008	FL
Peoples Telephone	803007	$22,573	6/6/2008	TX
Pine Belt Cellular	811304	$313	6/6/2008	AL
Pine Belt Telephone	801888	$0	6/6/2008	AL
Pine Island Telephone Company	801924	$0	6/6/2008	MN
Platte Valley Communications of Kearney	815420	$0	6/6/2008	NE
Qtel LLC	824346	$0	6/6/2008	NY
Redwood County Telephone Company	807708	$17,606	6/6/2008	MN
Roadrunner Communications	821692	$0	6/6/2008	MN
SJI Networks Company	824766	$859	6/6/2008	LA
Skyriver Communications	825150	$0	6/6/2008	CA
Teleplex Coin Communications	812821	$0	6/6/2008	NY
The Golden Belt Telephone Association	801084	$27,968	6/6/2008	KS
Vanco Direct USA	825393	$0	6/6/2008	IL
Vision Net Inc	816972	$0	6/6/2008	MT
Waitsfield Fayston Telephone	803463	$0	6/6/2008	VT
Walnut Hill Telephone Company	802509	$9,870	6/6/2008	AR
Wynn Communications Group	806880	$0	6/6/2008	NC
Lone Star PCS	825691	$0	6/6/2008	TX
CTE Telecom LLC	822888	$903,450	6/6/2008	CT
Fayetteville MSA	806222	$0	6/6/2008	AR
Forte Communications Inc	821068	$0	6/6/2008	IL
Gemini Companies Inc	817662	$0	6/6/2008	MN
Hargray Inc	821672	$436	6/6/2008	SC
Main Street Telephone Company	823582	$0	6/6/2008	PA
Nexband Communications	815916	$0	6/6/2008	MS
Next Gen Telephone	819863	$37,025	6/6/2008	NY
North English	801033	$0	6/6/2008	IA
Ringsted Telephone Company	803697	$0	6/6/2008	IA
Scranton Telephone Company	809630	$0	6/6/2008	IA
Softswitch Communications	822994	$0	6/6/2008	TX
South Canaan Long Distance	814765	$0	6/6/2008	PA
Telchin Corp	825660	$0	6/6/2008	FL
Think 12 Corp	824312	$0	6/6/2008	IL
Uni-Tel of Farmington	815156	$3,083	6/6/2008	NM
Wantel Inc	822642	$56,952	6/6/2008	OR
Western Wahkiakum County Tel	802254	$0	6/6/2008	WA
One Eighty Communications	821850	$64,788	9/9/2008	OR
TOTAL Contribution Potential Recovery		$1,546,569		

Table II: USF Round 2 High Cost Audits through the Quality Assurance Process during this Semi-Annual Report Reporting Period		
Assignment Number	Beneficiary	Total Estimated Improper Payment
HC-2007-082	Iowa Rsa No. 2 Limited Partnership	$94,521
HC-2007-086	Nebraska Tech. & Telecommunications, Inc.	$13,107
HC-2007-090	North Central Rsa 2 Of North Dakota LP	$0
HC-2007-092	Northwest Dakota Cellular Of North Dakota LP	$249,021
HC-2007-171	Barnes City Cooperative Telephone Company	$0
HC-2007-176	Cedar County Pcs, LLC	$2,229
HC-2007-182	Rcc Minnesota	$0
HC-2007-183	Rcc Minnesota, Inc.	$0
HC-2007-184	Rcc Minnesota, Inc.	$52
HC-2007-185	Rcc Minnesota, Inc	$30
HC-2007-187	Sei Wireless LLC	$1,385
HC-2007-191	Virginia Cellular LLC	$33
TOTAL Estimated Improper Payments		$360,378
Total Estimated Improper Payment is as defined by the IPIA and does not necessarily reflect the projected recovery amount. USAC could not provide a preliminary recommended recovery amount in time for inclusion in this report.		

TABLE III: USF Round 2 Schools and Libraries Audits through the Quality Assurance Process during this Semi-Annual Report Reporting Period		
Assignment Number	Beneficiary	USAC ProjectedRecovery Amount
SL-2007-001	Brentwood Union Free Dist	$0
SL-2007-005	Clarkstown Central School Dist	$0
SL-2007-010	Etowah County School District	$2,305
SL-2007-012	Franklin County School Dist	$0
SL-2007-018	Hillside Children's Center School	$0
SL-2007-023	Lowndes County School District	$0
SL-2007-028	Okeechobee County School Dist	$0
SL-2007-039	Talmud Torah Tzoin Yosef Pupa Inc.	$0
SL-2007-041	Anoka-Hennepin School Dist 11	$90,675
SL-2007-042	Ashe County School District	$319
SL-2007-048	Hart Indep School District	$0
SL-2007-049	Inter Lakes Coop School Dist	$0
SL-2007-050	Iredell-Statesville Sch Dist	$0
SL-2007-051	Kansas City Unif Sch Dist 500	$9,714
SL-2007-053	Manhattan Unif School Dist 383	$1,529
SL-2007-058	Minnetonka School District 276	$25,395

Table III continued on the following page.

TABLE III: USF Round 2 Schools and Libraries Audits through the Quality Assurance Process during this Semi-Annual Report Reporting Period (continued)		
Assignment Number	Beneficiary	USAC ProjectedRecovery Amount
SL-2007-060	New Lexington City School Dist	$0
SL-2007-063	Renwick Unif School Dist 267	$1,209
SL-2007-064	Rippey Elementary2	$0
SL-2007-067	Shepherd School District 37	$0
SL-2007-073	Wooster City School District	$22,247
SL-2007-078	Monroe Twp Public Schools	$128,868
SL-2007-084	Central Union High School Dist	$8,496
SL-2007-086	Corcoran Jt. Unified School District	$0
SL-2007-091	Woodlake Union High Sch Dist	$0
SL-2007-105	Groesbeck Indep School Dist	$0
SL-2007-111	Lexington County Public Library	$0
SL-2007-124	Texas School For The Blind	$0
SL-2007-128	Aldine Indep School District	$0
SL-2007-130	Arlington Public School Dist	$0
SL-2007-131	Azusa Unified School District	$0
SL-2007-132	Baltimore City School District	$0
SL-2007-138	Butler County School District	$18,541
SL-2007-139	Chattooga County School Dist	$0
SL-2007-145	Clinton Indep School Dist 99	$0
SL-2007-148	Columbus County School Dist	$0
SL-2007-156	East Cleveland City Sch Dist	$236,298
SL-2007-158	Emmett School District 221	$0
SL-2007-162	Fort Bend Indep School Dist	$0
SL-2007-166	Gaston County School District	$11,890
SL-2007-173	Hamden Public School District	$1,971
SL-2007-175	Hobbs Municipal School Dist	$11,567
SL-2007-180	Incarnation Elementary School	$4,110
SL-2007-182	Jackson County School District	$0
SL-2007-186	Katy Indep School District	$23,002
SL-2007-192	La Salle Parish School Dist	$0
SL-2007-194	Lancaster School District	$460,555
SL-2007-202	Miami-Dade County Public Schools	$0
SL-2007-206	Msd Lawrence Township	$0
SL-2007-211	Northridge Local S D-Dayton	$163,589
SL-2007-219	Pascagoula School District	$1,356
SL-2007-223	Portsmouth Public Library	$0
SL-2007-232	Schenectady City School Dist	$403
SL-2007-244	Thomasville City School Dist	$1,582
TOTAL USAC Projected Recovery Amount		$1,225,621

(continued from page 20)

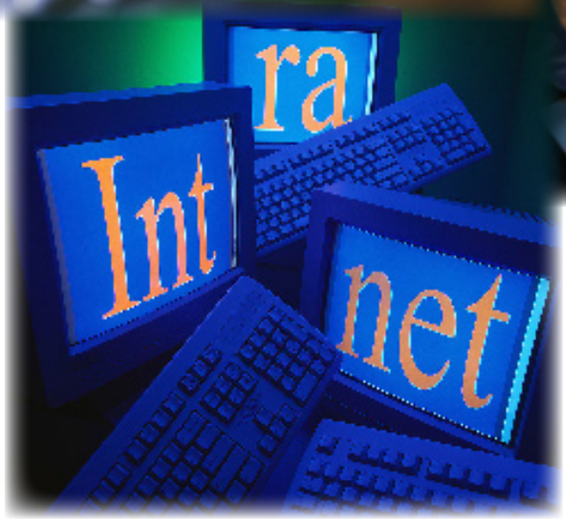
turn, has established a task force to conduct USF investigations that is comprised of attorneys in each of the Antitrust Division's seven field offices and the National Criminal Office. As of the end of this reporting period, we are directly supporting 31 investigations and monitoring an additional 8 investigations. Please refer to the Investigations section of this report for further information.

USAC Management

The Inspector General met with USAC's Acting Chief Executive Officer and explained his concerns with respect to USAC's operations and responsiveness, as well as the size, training and competence of its workforce. Similar or related concerns have been expressed by the FCC's Chief of the Wireline Competition Bureau, the FCC's Office of Managing Director and the Inspector General to the Chairman of USAC's Board of Directors and at regular quarterly meetings with the Executive Committee of the USAC Board of Directors.

During those meetings, additional concern was communicated concerning USAC's sense of limited accountability to, and lack of effective and candid communications with, the FCC. Those assessments have also been communicated separately to USAC's Acting Chief Executive Officer. And, although the FCC's Managing Director directed USAC to take steps to improve its management and to operate in a more efficient and effective manner (e.g., initiating a customer service program and website portal, requiring USAC to provide recommendations that USAC could take to prevent improper payments (including resource requirements and associated costs)), it has become increasingly apparent that a sharper focus on USAC's administrative processes, internal controls and management will be necessary.

Accordingly, the OIG contracted with auditing firms to assess and evaluate the operations of USAC's management, staff, and Board of Directors subcommittees that oversee the High Cost and Low Income Programs and the Schools and Libraries Program during this reporting period. The Inspector General also initiated an audit of USAC's travel and professional services expenses.


Int
ra
net

Did you know?

OIG's investigative staff has grown from two in January 2006 to 14 as of September 30, 2008.

INVESTIGATIONS

ACTIVITY DURING THIS PERIOD

SIGNIFICANT INVESTIGATIVE CASE SUMMARIES

OIG HOTLINE

INVESTIGATIONS

Federal Communications Commission (FCC) Office of Inspector General (OIG) investigations are frequently initiated on the basis of allegations of employee misbehavior, violations of federal law or FCC regulations or other forms of fraud, waste or abuse. These investigations often address allegations of fraud in FCC programs, such as the Spectrum Auction and Federal Universal Service Programs, or other criminal activity or misconduct within the FCC or its programs. We also receive complaints regarding the manner in which the FCC executes its programs, how the FCC handles its operations administratively, and how the FCC conducts its oversight responsibilities.

Allegations come from all sources. FCC managers, employees, contractors, and other stakeholders often contact the OIG directly with concerns about fraud, waste or abuse. Individuals call or e-mail the OIG Hotline, or send complaints through the United States mail. These allegations can be, and frequently are, made anonymously. Other government agencies, federal, state and local, including the Government Accountability Office, the Office of Special Counsel, and congressional and senatorial offices, refer matters to the OIG for potential investigation. In addition, investigations may develop from OIG audits or inspections that discover evidence or indications of fraud, waste, abuse, misconduct, corruption, or mismanagement of FCC programs or operational segments.

After receiving an allegation, the Assistant Inspector General for Investigations (AIGI) or one of his staff will conduct a preliminary review of the matter to determine if an investigation or referral is warranted. Sometimes serious allegations may merit attention, but are outside the jurisdiction of the OIG. These allegations would be referred to the appropriate entity, usually another office or bureau in the FCC or another federal or law enforcement agency, for review and response to the complainant. As much as possible, the OIG continues to be involved and serve as a facilitator for complaints that are outside the jurisdiction of this office. The OIG, like most government offices, has an ever-increasing volume of work and dedicated but limited resources. Therefore, allegations of matters within the jurisdiction of the OIG are reviewed for assignment and priority in a "triage" method. Matters that have the potential to significantly impact federal funds, im-

portant FCC missions or programs, or the basic integrity and working of the agency receive the highest priority for investigation and assignment of resources.

The OIG works not only on a large number of investigations, but a large variety of investigations. We deal with complex cyber crime investigations, cases involving large criminal conspiracies, and on matters throughout the United States and territories. These complex and wide-ranging cases often require substantial investigative expertise and resources that the OIG itself does not have, which can include needing personnel on the ground across several states or high-grade forensic tools and the expertise to use them. In these cases, we have always received, and are grateful for, the assistance of other agencies, especially including the OIG of other federal agencies. For example, in one matter the Office of Inspector General for the United States Postal Service obtained evidence for our office by using his criminal investigators. This cooperative and coordinated effort saved this office valuable time and expense by not having to send our agents out in the field where other inspector general criminal investigators were already located.

The AIGI and his staff also work with other agencies, including the U.S. Department of Justice, to support their criminal and civil investigations and prosecutions relating to FCC missions and programs. Many of these investigations and prosecutions involve fraud pertaining to the federal Universal Service Program, sometimes referred to as the Universal Service Fund or USF. One of the USF programs that benefits schools and libraries across the nation, often know as the E-Rate Program, has been a prime target for fraud but has also been the focus of joint and coordinated investigation and prosecution efforts by the Department of Justice and the FCC and its OIG. Those efforts have now resulted in a history of successful prosecutions and indictments, and of restitution for such fraud to the USF.

Activity During This Period

At the outset of this reporting period, eighty (80) cases were pending. Thirty-six (36) 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 U.S. Department of Justice. An additional twenty-one (21) non-USF and six (6) USF related complaints were received during the current re-

porting period. Over the last six months, thirteen (13) cases, three (3) USF and ten (10) non-USF related, have been closed. As a consequence, a total of ninety-four (94) cases are pending, of which thirty-nine (39) relate to the USF program. The OIG continues to monitor, coordinate and/or support activities regarding those thirty-nine (39) investigations. The investigations pertaining to the pending fifty-five (55) non-USF cases are ongoing.

Statistics	
Cases Pending as of April 1, 2008	80
New Cases	27
Cases Closed	13
Cases Pending as of September 30, 2008	94

Significant Case Summaries

Several of the most recent efforts of this office are described below. There are, however, many other matters that, due to their sensitive nature or related investigations, cannot be included.

Phase I of the OIG's Investigation into the 700 MHz D Block Auction

During this period, Chairman Kevin Martin requested an investigation into allegations that an entity, Cyren Call Communications Corporation ("Cyren Call"), discouraged potential bidders from participating in the Commission's 700 MHz D Block Auction ("Auction 73") by discussing with potential bidders a lease payment that any eventual D Block winning bidder would have to pay to the Public Safety Broadband Licensee ("PSBL"). Auction 73 closed on March 18, 2008, with a record $19.6 billion in bids. The D Block, the commercial spectrum made available for a public/private partnership to create a nationwide public safety network, received only one early round bid, from Qualcomm Incorporated, which was significantly lower than the $1.33 billion reserve price. The OIG's report of investigation ultimately concluded that there were many factors that turned potential bidders away from participating in Auction 73 and the lease payment issue was only one of those factors.

On March 20, 2008, Chairman Martin asked the Inspector General to investigate the allegations in several online wireless newspapers and "blogs" and included in a March 19, 2008 letter to the Chairman from Harold Feld, Senior Vice President of the Media Access Project ("MAP") and a

representative of the Public Interest Spectrum Coalition ("PISC"). PISC, through Mr. Feld's letter, specifically asked that the Commission investigate the allegations regarding "a purported meeting between Frontline Wireless ("Frontline"), its financial backers, and Morgan O'Brien of Cyren Call that may have had the effect of preventing Frontline from attracting needed capital and discouraging other bidders."

The OIG investigative team interviewed officials from the FCC, Public Safety Spectrum Trust ("PSST," holder of the PSBL), Cyren Call, Mr. Feld, and representatives of potential D Block bidders including AT&T, Frontline, Qualcomm, and Verizon Wireless ("Verizon").

The investigation determined that Cyren Call officials met with Frontline and Verizon to discuss an estimated spectrum lease payment amount of $50 to $55 million (amount varied depending on the interviewee) per year for a period of ten years. All of these meetings took place prior to the "Quiet Period," when the FCC auction anti-collusion rule was in effect. (The anti-collusion rule prohibits FCC auction applicants from communicating their bids or bidding strategies with each other from the short-form application deadline to the post-auction down payment deadline. The rule is intended to foster a level playing field and ensure that the government receives a fair market price for spectrum.) The lease payment was discussed as an estimated amount that was included in the PSST business plan, but it was clear that the actual number would result from negotiations after the auction. Frontline, as well as other entities interviewed, stated that the lease payment amount was only one of many factors it considered in deciding whether to participate in the D Block. Witnesses from all of the entities interviewed also described a host of problems and concerns with the D Block that, as a whole, deterred their participation in the D Block.

On April 25, 2008, the OIG reported the results of its D Block investigation, concluding that the evidence established that the lease payment discussed at Cyren Call's meetings with Verizon and Frontline was not the only factor in the potential bidders' decisions not to bid on the D Block. Rather, the investigation established that the uncertainties and risks associated with the D Block, including, but not limited to, the negotiation framework with PSST, the potential for default payment if negotiations failed, and the costs of the build-out and the operations of the network,

taken together, deterred potential bidders from bidding on the D Block.

Subsequently, on May 14, 2008, the Commission re-opened the rulemaking pertaining to the D Block rules to examine various issues, including the issue of spectrum lease payments to the PSBL.

Phase II of the OIG's Investigation into the 700 MHz D Block Auction

On May 23, 2008, the U.S. House of Representatives' Committee on Energy and Commerce (the "Committee") requested that the Inspector General investigate whether the relationship between Cyren Call and PSST was consistent with the Commission rule that prohibited entities from holding commercials interests in the PSBL, and prohibited commercial interests from participating in the management of the PSBL. The Committee asked the IG to consider whether the parties' existing relationship is consistent with the rule, and also whether "any future, post-auction plans by Cyren Call...including any plans to create or be involved with a mobile virtual network operator...would violate the [rule's] prohibition." This investigation remains on-going because many issues that could affect the subject matter of the requested investigation, including the rules being examined in the Commission's D Block rulemaking noted above, are still being resolved.

FTC v. Neovi, Inc., d/b/a Neovi Data Corporation and Qchex.com, et al.

During this period, the OIG supported the Federal Trade Commission ("FTC") in the matter of FTC v. Neovi, Inc., d/b/a Neovi Data Corporation and Qchex.com, et al., a case before the United States District Court for the Southern District of California. Defendants marketed a series of software programs that operated under the Qchex.com website. Users of the software could enter check and bank account information and use the site to send checks to third parties via email or the United States Postal Service. Qchex customers provided only raw data that defendants converted into negotiable instruments by taking the data and composing a check document that matched U.S. banking regulations when printed.

From the outset the Qchex "system" was manipulated by fraudulent individuals who requested checks without having authority over the bank account upon which it was to be drawn. The FTC

alleged that the defendants assisted these individuals by failing to take adequate measures to verify that they had actual authority over the bank accounts they stated belonged to them. Defendants started receiving complaints about the fraudulent use of their system from the outset. According to the defendant's database, from 2000 to 2006 nearly 155,000 checks from 13,770 Qchex accounts were frozen for fraudulent activity. In time, this included 186 federal, state, and local law enforcement agencies.

On September 16, 2008, the court granted the FTC's Motion for Summary Judgment, in part. That motion sought an injunction that, in part: (1) prohibited defendants from creating and delivering checks without adopting reasonable verification procedures; (2) restrained defendants from failing to respond to consumer complaints; (3) prohibited defendants from failing to protect consumers' private financial account information; (4) ordered defendants to disgorge $535,358; and (5) ordered defendants to comply with monitoring and reporting requirements. The Court will determine the remedy after the filing of supplemental briefs.

Because the role of this office in the joint Qchex investigation has been completed, the FCC OIG investigation into this matter has been closed.

Media Bureau Procedures Regarding NCE FM Stations

During this period, the OIG initiated an inquiry into a procedure followed by the Media Bureau regarding the handling of applications for the right to make changes to, or to operate, new non-commercial educational ("NCE") FM stations. Applicants who sought to make minor modifications, i.e., not major or new applications, complained that they were unnecessarily inconvenienced and their positions made vulnerable by not having early access to the NCE band proposals. The NCE band proposals are not made public until weeks after the filing period ends. Applications for minor modifications can be made at any time, but must not interfere with the broadcast contour integrity in earlier applications. By not having access to the new or major applications, those filing for minor applications argued that they had to file in an information vacuum and "guess" at the location and dimensions of the NCE applicants so as to not create a conflict with them. The OIG concluded that, while the Media Bureau articulated legitimate reasons for proceeding as it did, this office will make recommendations to help

devise a system that will better address the needs of the regulated community.

United States v. Eldon Anderson

During this period, the OIG supported the Department of Justice in a criminal prosecution of Eldon Anderson. Mr. Anderson was indicted on 14 counts of securities fraud and 12 counts of mail fraud for selling unregistered securities. He entered into a plea agreement on March 28, 2008, and is awaiting sentencing. He faces between 6½ to 8 years in federal prison, and has been ordered to pay full restitution for his fraudulent securities scheme.

Consolidated Database System

During this period, the OIG initiated an inquiry into allegations that the Media Bureau's Consolidated Database System ("CDBS") was flawed. CDBS is the licensing application software system that the Media Bureau has made available for public filings since 2000. Because remedial efforts regarding this system were already underway, OIG noted the alleged flaws to the Office of Managing Director and may test the new system once it is publicly available.

Recent USF E-Rate Fraud Prosecution Successes

The USF program that benefits schools and libraries across the nation is often called the E-Rate Program. As noted above, that program has been a prime target for fraud but has also been the focus of joint and coordinated federal investigation and prosecution efforts by the U.S. Department of Justice and the FCC and its OIG. Those interagency efforts have resulted in a history of successful prosecutions and indictments, and of restitution for such fraud to the USF. Several of the most recent successes in that effort are described below.

Illegally Influencing a Grand Jury – the William Coleman Matter

In September 2008, William Coleman, the former Deputy Superintendent and Chief Operating Officer of Dallas Independent School District, was sentenced to one year of probation and a $5,000 fine for trying to influence a grand jury that was investigating a bribery and money laundering scheme in the Dallas Independent School District. Bribery and money laundering charges against the former Dallas school administrator were dropped

in exchange for his guilty plea in May 2008.

Mail Fraud – the Fort Berthold Indian Reservation Matter

In September 2008, Global Networking Technology, Inc., of Gurnee, Illinois, and Computer Training and Associates, Inc., of North Chicago, Illinois, through corporation representatives Tyrone Pipkin and Gloria Harper, plead guilty to mail fraud and agreed to pay $241,000 in restitution for allegedly using a North Dakota school district on the Fort Berthold Indian Reservation to defraud the E-rate program.

Dallas Independent School District and Micro Systems Engineering, Inc.

In July 2008, a federal jury convicted Ruben B. Bohuchot, the former Dallas Independent School District technology director, on 13 counts and Frankie Wong, president of Micro Systems Engineering, Inc., on 10 counts involving offenses related to the operation of bribery, conspiracy, and money laundering schemes involving technology contracts. Federal prosecutors presented evidence that the former technology director steered two multimillion-dollar contracts to the vendor in return for cash, rounds of golf, meals, trips and dozens of deep-sea outings on two sport-fishing boats that the technology director christened Sir Veza I and II. The jury found that the individuals should forfeit $1.2 million as the proceeds for their crimes. Sentencing is scheduled for October, 2008 with both individuals facing a maximum of 10 years in prison and a $250,000 fine for each bribery count and 20 years and a $500,000 fine for the money laundering charge.

Conspiracy -- the Douglas and Mary Jo LaDuron Matter

In April 2008, Leonard Douglas "Doug" LaDuron and his mother, Mary Jo LaDuron, aka Mary Jo Gault, were indicted in the U.S. District Court in Kansas City, Kansas, for participating in a conspiracy to defraud the E-Rate program. Doug LaDuron, former owner of Serious ISP Inc., Myco Technologies Inc., and Elephantine Corporation, carried out the alleged conspiracy by submitting false statements and concealing material facts from the administrators of the E-Rate program. The indictment also alleges Mary Jo LaDuron fraudulently represented herself as an independent consultant, and steered E-Rate contracts to companies owned by her son as well

as to co-conspirators, Benjamin Rowner and Jay H. Soled.

Concealing Material Facts – the DeltaNet Matter

In April 2008, Benjamin Rowner and Jay H. Soled, former owners of DeltaNet, a New Jersey computer service provider, plead guilty to charges related to defrauding the E-Rate program. The pair conspired to defraud the E-Rate program by submitting false statements and keeping important information from the administrators of the program. The men have agreed to cooperate with the U.S. Department of Justice's on-going investigation into E-Rate fraud.

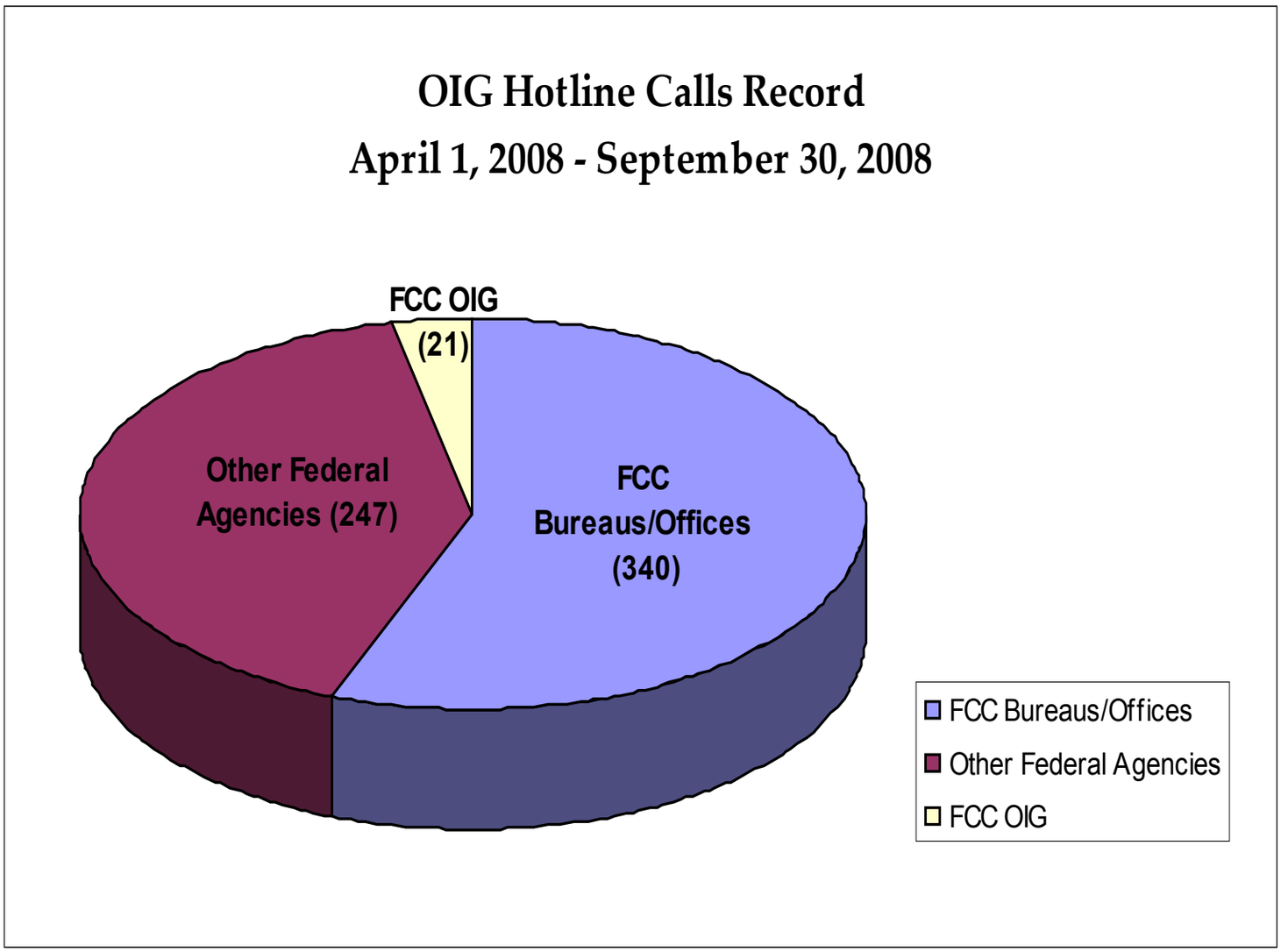
Bribery and Conspiracy -- the R. Clay Harris Matter

In July 2008, R. Clay Harris was found guilty by a federal jury on charges of bribery and conspiring to bribe Arthur Scott, the former Director of Operational Technology/Telecommunications for Atlanta Public Schools. Harris was the Chief Executive Officer and majority owner of Multimedia Communications Services Corporation while co-conspirator Scott was responsible for managing and overseeing the E-Rate program for Atlanta Public Schools. Arthur Scott pleaded guilty to conspiracy and bribery charges in May 2007, and testified at trial against Harris. Sentencing is scheduled for October 2008 and Harris faces a maximum sentence of 45 years in federal prison.

OIG Hotline

During this reporting period, the OIG Hotline technician received numerous 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 Consumer Center at 1-888-225-5322. In addition, the OIG also refers calls that do not fall within its jurisdiction to other entities, such as other FCC offices, federal agencies and local or state governments. Examples of calls referred to the Consumer Center 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.

During this reporting period, we received 608 Hotline contacts, which resulted in OIG taking action on 21 of these. The remaining calls were forwarded to the other FCC bureaus and offices, primarily the FCC Consumer Center (340 calls) and other federal agencies, primarily the Federal Trade Commission (247 calls).[1]



1 In our previous semiannual report, we identified 72 Hotline calls as "awaiting disposition" at the end of the reporting period. In fact, the disposition of those calls had been resolved during the prior reporting period and they are not included in the statistics for this reporting period.

Local Calls
25¢
EMERGENCY
911
No incoming calls accepted

REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT

REPORTING REQUIREMENTS OF SECTION 5(A)

TABLE I: OIG REPORTS WITH QUESTIONED COSTS

TABLE II: OIG REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

REPORTING REQUIREMENTS

The following summarizes the Office of Inspector General response to the 12 specific reporting **re-**quirements 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.

Please refer to the section of this report titled "Universal Service Fund" and the section of this report captioned "Telecommunications Relay Service."

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).

Please refer to the section of this report titled "Universal Service Fund" section of this report captioned "Telecommunications Relay Service."

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.

Please refer to the section of this report entitled "Universal Service Fund" and the section of this report entitled "Investigations."

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 this 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 the "Audit Areas" section and in Tables I and II of this report.

7. A summary of each particularly significant report.

Each significant audit and investigative report issued during the reporting period is summarized within the audits and investigations sections and in Tables I and II of this report.

8. Statistical tables showing the total number of audit reports with questioned costs and the total dol-

lar value of questioned costs.

The required statistical table can be found at Table I to this report. See also the statistical estimates of erroneous payments made in the "Universal Service Fund" section of 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 and in the section captioned "Universal Service Fund."

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.

13. Information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.

No reports with this information have been issued during this reporting period.

Table I: OIG Reports With Questioned Costs			
Inspector General Reports With Questioned Costs	Number of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	–	–	–
B. Which were issued during the reporting period.	15	$1,546,569	–
C. For which a management decision was made during the reporting period.	15	$1,546,569	–
(i) Dollar value of disallowed costs	–	–	–
(ii) Dollar value of costs not disallowed	–	–	–
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.	–	–	–

Table II: OIG Reports With Recommendations That Funds Be Put To Better Use		
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.	–	–
C. For which a management decision was made during the reporting period.	–	–
(i) Dollar value of disallowed costs	–	–
(ii) Dollar value of costs not disallowed	–	–
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.	–	–

This page intentionally left blank.

Report Fraud, Waste or Abuse to:

Email
Hotline@FCC.gov

Call Hotline:
202.418.0473 or
888.863.2244

www.FCC.gov

You are always welcome to write or visit.

Office of Inspector General
Federal Communications Commission
Portals II Building
445 12th St., S.W. Room 2-C762

Federal Communications Commission
Office of the Inspector General

445 12th St., SW
Washington DC 20554
www.FCC.gov/OIG