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# Introduction

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*The Federal Communications Commission (FCC) is an independent regulatory agency exercising authority delegated to it by Congress under the Communications Act of 1934 as amended by the Telecommunications Act of 1996. The FCC is charged with regulating interstate and international communications by radio, television, wire, satellite and cable. The FCC's jurisdiction covers the fifty states, the District of Columbia, and U.S. possessions. The mandate of the FCC under the Communications Act is to make available to all people of the United States a rapid, efficient, nationwide, and worldwide wire and radio communication service. The FCC performs four major functions to fulfill this charge:*

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

*The Chairman and four Commissioners are appointed by the President and confirmed by the Senate. William E. Kennard was confirmed as Chairman on October 29, 1997. Harold W. Furchtgott-Roth, Michael Powell, Gloria Tristani and Susan P. Ness serve as Commissioners. The majority of FCC employees are located in Washington, DC. FCC field offices and resident agents are located throughout the United States. FCC headquarters staff are now housed in entirety in the Portals II building located at 445 12<sup>th</sup> Street, SW, Washington D.C. 20554. Office of Inspector General (OIG) personnel continue to work with the FCC Security Officer to evaluate overall building security and develop recommendations as appropriate to best ensure the safety and integrity of FCC staff and operational systems.*

*The OIG has dedicated itself to assisting the Commission as it continues to improve its efficiency and effectiveness. The Inspector General (IG), H. Walker Feaster III, reports directly to the Chairman. The OIG is now located in the West wing of the Portals II in the FCC headquarters building at 445 12<sup>th</sup> Street, SW, Washington, D.C. 20554. With the departure of Paul Brachfeld to the National Archives and Records Administration as Inspector General, Thomas D. Bennett was appointed as the Assistant Inspector General for Audits (AIGA). Charles J. Willoughby serves as the Counsel and Assistant Inspector General for Investigations (AIGI).*

*This report includes the major accomplishments and general activities of the OIG during the period October 1, 1999, through March 31, 2000, in accordance with Section 5 of the Inspector General Act of 1978, as amended 5 U.S.C. App. 3, 5.*

## **Highlighted OIG Activity**

### **Year 2000**

*As part of our program of monitoring and supporting Commission efforts to address the Year 2000 problem, the OIG performed a series of reviews to determine Commission readiness. For example, we performed a special review of Business Continuity & Contingency Planning (BCCP). The objective of this review was to evaluate the status of continuity planning. As a result of this review, we reported that the Commission did not have a sufficiently detailed and tested BCCP in place to prepare for an outage of one or more mission critical systems (with one exception). We recommended that the Commission work aggressively to institute and test BCCP's for all mission critical systems.*

*In addition to reviewing BCCP activities, we performed a special review to assess the feasibility of the Commission's plan to ensure the continuity and operation of core business processes during the midnight transition from December 31, 1999 continuing through the first day of business January 3, 2000 (i.e., the "Day One Plan"). As a result of this review, we reported that the Day One Plan needs to accurately reflect the current status of Y2K readiness and that the plan did not adequately address Day One rehearsal and reporting activities. The Commission successfully completed the transition to Year 2000 without any major problems.*

### **Spectrum Auctions**

*As part of the Omnibus Budget Reconciliation Act of 1993, the Federal Communications Commission (FCC) was authorized by Congress to auction electromagnetic spectrum. Since the inception of the "auctions program", the OIG has performed numerous reviews of various aspects of the program, ranging from application processing and bid management through detailed technical reviews of Information Technology (IT) management. During this semiannual reporting period, we participated in a multi-agency OIG review entitled "PCIE/ECIE Review of Non-Tax Delinquent Debt" as part of our ongoing review of this critical program. The objective of this review was to assess the collectibility of delinquent debts that have arisen out of the spectrum auctioning process and evaluating the portfolio management activities of the FCC to ensure that these practices minimize losses to the Government. As a result of this review, we reported that the FCC is experiencing significant collection issues with its Spectrum Auction installment loan portfolio. Based on discussions with FCC management and other information obtained, the high level of FCC's delinquent debt is due to a number of contributing factors including, but not limited to, balancing program social goals with the need for front-end loan underwriting, changes in market conditions, and inability of licensees to raise additional capital. The CFO has reported implementation of three of the seventeen accepted recommendations thus far and partial implementation of three others.*

*In addition to our review of Non-Tax Delinquent Debt, we performed a special review of IT security for the critical Commission sub-network supporting auction operations. This review was initiated in response to a referral from the Commission's Computer Security Officer. Based upon initial reports of potential system compromise, the OIG established a task order under our contract with a computer security firm and created a review team comprised of representatives from the contractor and OIG. During the review, we determined that the system had not been compromised and that the incident actually resulted from a feature of the database management system. However, as part of the review process we examined aspects of security and technology management and identified areas where improvements could be made..*

### ***Financial Management***

*During the semiannual reporting period, the OIG, with the support of an independent CPA firm, substantially completed audit work relating to the FY 1999 audit of FCC's financial statement. Draft versions of the independent auditor's report and related reports on internal control and compliance were submitted for agency management's review and outstanding issue resolution. Additionally, FCC management is resolving issues precluding general release of its FY 1999 financial statement.*

### ***Field Inspection Program***

*The OIG conducts inspections of Commission field offices as part of the Field Inspection Program (FIP). We conduct field inspections in order to independently assess and report upon the effectiveness and efficiency of field operations. The FIP also serves as a means to evaluate and test internal controls, address employee concerns, identify best practices and, conversely, impediments to operations. During the semiannual reporting period, we prepared a report summarizing the results of field inspection visits during FY 1999. A recurrent concern raised by the field employees during FY 1999 field office visits was over personal safety when responding to interference complaints or unauthorized transmissions, particularly in areas with significant "local militia" activities. On January 27, the Chief of the Enforcement Bureau reminded all of its employees to follow all existing Field safety policies while a study was conducted to see what, if any, additional steps should be taken to maximize employee safety.*

*For the current fiscal year, we are assessing the FIP to determine whether the program should be modified in its scope and conduct. The review procedures utilized in the FIP have not been materially revised since the program's inception. We are currently identifying areas where the program can be enhanced and developing a risk-based approach to selecting sites for field visits. This effort is being performed through internal review of procedures used in prior FIPs, discussions with Commission representatives to obtain their suggestions, and review of similar programs in other federal agencies. Due to budget constraints, funding for travel expenses is*

*currently under severe limitations. As a result, we may forgo the conduct of the FIP in fiscal year 2000, and concentrate our effort on revamping the program for future fiscal years.*

### ***Technical Advice and Assistance***

*OIG continued to broaden its role as a provider of technical advice and assistance to Agency officials in developing sound management information and financial reporting systems and in streamlining programs and organizations. In addition to concentrating in the areas of financial management and procurement, we worked closely with Commission representatives to develop a Systems Development Life Cycle and participated with the Licensing Work Group.*

*OIG continued to further FCC employees' understanding of the role of the Inspector General by publishing the first edition of the OIG Policies and Procedures in pamphlet form. Copies have been widely distributed throughout the Commission.*

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# *Audits*

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## **OVERVIEW**

*During the semiannual reporting period, the Office of Inspector General (OIG) issued the following reports:*

- 1. October 21, 1999 – Special Review Report of the Commission’s Draft Business Continuity and Contingency Plan (BCCP)*
- 2. November 2, 1999 – Status Report on the Commission’s Year 2000 Activities*
- 3. December 23, 1999 – Reports Related to Non-Tax Delinquent Debt*
- 4. March 28, 2000 – Report on Special Review of Auctions Security*

*OIG reports can generally be obtained via the Internet from the OIG webpage located on the FCC website [<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.*

## **OIG REPORTS ISSUED**

### ***Special Review Report of the Commission’s Draft Business Continuity and Contingency Plan (BCCP) issued on October 21, 1999, Report No. 00-AUD-01-02***

*As part of the OIG’s monitoring and support of the FCC’s internal efforts to address the Year 2000 problem, the OIG performed a special review of the critical area of Business Continuity & Contingency Plans (BCCPs). OIG auditors reported that the Commission had made progress addressing BCCP issues for the Year 2000 problem. However, the FCC did not have a sufficiently detailed and tested BCCP in place to prepare for an outage of one or more mission critical systems (with one exception). As of October 6, 1999, the Commission had not completed thirteen of its fourteen local BCCPs for its Bureaus and Offices. No documented plan had been tested.*

*OIG auditors recommended that the Commission continue to aggressively work to institute and test BCCP’s for all mission critical systems. Further, we recommended that, if timing is insufficient to fully simulation test all systems, only those systems of the highest criticality and risk should be simulation tested. All systems should, at a minimum, be subject to an independent desktop test. We noted that a desktop test is not optimal, as it does not replicate the conditions related to an actual system outage. Nonetheless, a desktop test provides some measure of*

familiarity to program operators and users of contingency measures, which may require implementation.

**Status Report on the Commission's Year 2000 Activities issued on November 2, 1999, Report No. 00-AUD-01-02**

*As part of the OIG's monitoring and support of the FCC's internal efforts to address the Year 2000 problem, we performed a special review to assess the feasibility of the FCC's Year 2000 Day One Plan. A Day One Plan is a document designed to ensure the continuity and operation of the FCC's core business processes during the midnight transition from December 31, 1999 to January 1, 2000, continuing through the first day of business January 3, 2000. As a result of our review, we reported that:*

- *The Day One Plan needs to accurately reflect the current status of Y2K readiness*
- *The Plan does not adequately address Day One rehearsal and reporting activities.*

*The Commission agreed with the findings and stated that these conditions were caused by the short time frame in which the FCC had to comply with the development of this plan for the Office of Management and Budget (OMB). The Commission also stated that they would carry out rehearsal activities in December 1999. The transition to Year 2000 was successfully completed without any major problems.*

**Reports on Non-Tax Delinquent Debt issued on December 23, 1999, Report No. 00-AUD-01-03**

*We participated in a Government-wide review of Non-Tax Delinquent Debt sponsored by the President's Council on Integrity and Efficiency (PCIE). This review was initiated by the PCIE in response to concerns raised by the Subcommittee on Government Management, Information and Technology, Committee on Government Oversight and Reform. The primary objectives of the Government-wide PCIE Review were to (1) determine whether previously reported amounts of Federal government-wide non-tax delinquent debt accurately represent the universe of non-tax delinquent debt, and (2) to attempt to assess the collectibility of the delinquent debt. To accomplish the objectives of the review, we established a task order with the Public Accounting firm of Ernst & Young LLP (hereinafter referred to as "Ernst & Young"). Ernst & Young used a performance review guide prepared by the Department of the Treasury to conduct the review. In addition, at our direction, the scope of the review was limited to FCC's Spectrum Auction installment loan program.*

*Ernst & Young concluded that the FCC is experiencing significant collection issues with its Spectrum Auction installment loan portfolio. Based on discussions with FCC management and other information obtained, the high level of FCC's delinquent debt is due to a number of contributing factors including, but not limited to, balancing program social goals with the need for front-end loan underwriting, changes in market conditions, and inability of licensees to raise*

*additional capital. The FCC's collection efforts have also been hampered by various internal and external accounting and organizational problems, such as:*

- *unclear and undefined internal FCC debt collection policies, procedures and responsibilities;*
- *non-performance of certain debt collection activities;*
- *insufficient reporting and monitoring of installment loan portfolio performance; and*
- *difficulties and problems with the outsourced Nortridge Loan Tracking System.*

*To address the current situation, the FCC is taking steps to improve debt management practices, including defining the bureaus and offices responsible for collection actions as well as formalizing and documenting debt management policies and procedures. This project resulted in eighteen formal recommendations of which management concurred with seventeen. We believe that this commitment on the part of the FCC to address deficiencies in the auction loan program will result in more accurate computation and reporting of loan balances. This effort, when taken in conjunction with improved loan servicing and debt collection practices, as recommended by this office, will result in overall program improvements. These improvement in internal controls, consistency in processing standards, and compliance with Federal laws and regulations will result in better protection of the financial assets of the Federal government. The CFO has reported implementation of three of the seventeen recommendations thus far and partial implementation of three others.*

***Fiscal Year 1999 Field Inspection Program – Summary Inspection Report issued on January 21, 2000, Report No. 00-AUD-01-15***

*The OIG conducts an annual review known as the Field Inspection Program, or FIP. This program has been in place since 1996 and has proven to be a useful management tool for the Commission. The FIP consists of OIG visits to selected field offices to perform a detailed review of office procedures for controls over program functions and administrative activities. Additionally, field office employees are given the opportunity to discuss their concerns with OIG auditors and provide feedback to Commission management.*

*During the semiannual reporting period, we prepared and issued our Summary Inspection Report for field inspections conducted at the following offices during FY 1999:*

- *Office of Regional Director, Northeast Region*
- *Chicago Field Office*
- *New York Field Office*
- *Detroit Field Office*
- *Philadelphia Field Office*

*Our inspection included the evaluation of internal controls over payroll, imprest funds, credit*

*cards and other government assets. Additionally, the status and serviceability of facilities and equipment were assessed. Our inspection disclosed minor payroll and equipment inventory discrepancies that were subsequently resolved. The inspection team also sought out best practices at each office that could be adopted on a Bureau-wide basis, and obtained feedback from the field employees on topics of concern or interest. A recurrent concern raised by the field employees was over personal safety when responding to interference complaints or unauthorized transmissions, particularly in areas with significant "local militia" activities.*

*We issued a summary report and individual reports on each field visit to Commission management. The reports did not contain findings and recommendation as in a formal audit report, but are designed to be observations for management's information and use. On January 27, the Chief of the Enforcement Bureau reminded all of its employees to follow all existing Field safety policies while a study was conducted to see what, if any, additional steps should be taken to maximize employee safety.*

***Report on Special Review of Auctions Security issued on March 28, 2000, Report No. 00-AUD-01-21***

*In response to a referral from the Commission's Computer Security Officer, the OIG performed a special review of Information Technology (IT) security on a critical sub-network within Commission's IT infrastructure. The affected sub-network is used to support the Commission's spectrum auction activities. Based upon the initial reports of potential system compromise, the OIG responded by establishing a task order under our contract with the computer security firm of TWM Associates, Inc. (hereinafter referred to as "TWM") and creating a review team comprised of representatives from TWM and OIG. The special review was conducted in two phases. The objective of the initial phase of the review was to investigate the incident and, to the extent that this information could be developed, determine who was inappropriately using a privileged account on the sub-network. The objective of the second phase of the review was to evaluate the security of IT components within the sub-network.*

*The review team completed the first phase of the review and reported the results of that portion of the review in an OIG flash report that was issued on October 12, 1999. In that report, the OIG review team concluded that the specific incident triggering this investigation appears to have been the result of a database system security feature and not a malicious attack. Working with IT staff from the Auctions group, the review team was able to re-create the system behavior displayed during the incident to support the hypothesis that the incident was the result of a database management system feature. Based on these event re-creations and our examination of the security boundary surrounding the Auctions technology, the review team concluded that the incident actually resulted from a feature of the Sybase database management system and that the security boundary is configured correctly.*

*During the second phase of the review, the review team identified findings covering two general areas: 1) the administration of the Auctions systems and 2) the technology assets employed by*

*the Auctions site. The administrative findings focus on the plans, policies and procedures in place to ensure that the systems in question are administered in a secure manner. Our review determined that, in general, the plans, policies and procedures in place over the Auctions system need improvement. In addition, our review indicates that adherence to the existing plans, policies and procedures was not sufficient to ensure adequate security for the Auctions system. The review team made several recommendations to strengthen existing plans, policies, and procedures. The technology-based findings focus on the secure implementation and deployment of technology within the system. The review team made several recommendations to strengthen controls over specific components of the IT infrastructure.*

*Because of the sensitive nature of the specific conditions identified during this review, specific information about findings was included in the appendices to the report and distributed only to those personnel with a need for the information.*

## **ONGOING OIG AUDIT ACTIVITY**

### ***Audit of Civil Monetary Penalties***

*We are in the process of completing an audit of the Commission's Civil Monetary Penalty Program. The Communications Act of 1934 authorizes the Federal Communications Commission (FCC) to use civil monetary penalties as a means of enforcing Commission rules and regulations. For the period from Fiscal Year (FY) 1995 through the second quarter of FY 1999, Commission records indicate that 375 civil monetary penalty actions with a total dollar value of \$27,342,500 were initiated. For those transactions initiated during this period, the Commission reports collections totaling \$6,364,650 and some level of monetary collection on 213 of the 375 actions. The objective of this review was to determine if the Commission has established an effective program for managing civil monetary penalties. To conduct this review, we examined all aspects of the process by which the Commission manages civil monetary penalty actions. On March 24, 2000, we issued a draft report summarizing the results of our review. The Commission is expected to provide a response to the draft report by April 28, 2000.*

### ***Audit of Computer Controls at the Federal Communication Commission (FCC) National Call Center (NCC)***

*We are in the process of completing an audit of computer controls at the Commission's National Call Center (NCC). The FCC opened the NCC in 1996 at the Commission's facility located in Gettysburg, Pennsylvania. Since its introduction in 1996, the NCC has seen a tremendous increase in the volume of activity and is heavily reliant upon automated tools to respond to customer inquiries. The objective of this audit was to examine the automated computer system and the control environment in which the call center operates to ensure that adequate security safeguards exist to protect NCC data. To accomplish the objectives of this review, the OIG established a task order with the computer security firm of TWM Associates, Inc. To conduct the*

review, TWM used the guidelines contained in the Federal Information System Controls Audit Manual (FISCAM) developed by the United States General Accounting Office (GAO). On March 31, 2000, we issued a draft report summarizing the results of our review of the computer controls at NCC. The Commission is expected to provide a response to the draft report during the third quarter.

Because of the sensitive nature of the specific conditions identified during this review, specific information about findings will be included in the appendices to the report and distributed only to those personnel with a need for the information.

### ***FY 1999 Financial Statement Audit***

*In coordination with the FCC's Chief Financial Officer (CFO), the OIG contracted with an independent public accounting firm (IPA) to assist the OIG in conducting the first-ever financial statement audit of the FCC. While presently the FCC is not a designated agency per the CFO Act, amended, the OIG with the concurrence of the Department of the Treasury, Financial Management Service (FMS), incorporated within the scope of its work that the audit meet the requirements of a CFO scope audit.*

*Significant changes to audit scope impacted the OIG and its contractor's ability to complete the audit by the March 1, 2000 expected date. FCC management, with the concurrence of the OIG and its contractor, limited its financial statements prepared per Office of Management and Budget (OMB) Bulletin No. 97-01, Form and Content of Agency Financial Statements, amended, to an overview of the reporting entity, a consolidating balance sheet and related notes (financial statement), and required supplementary information relating to intra-governmental amounts and the related Federal trading partners for assets and liabilities. Additionally, FCC identified a significant component of its reporting entity that had a material impact on the financial statements and greatly expanded the scope of the work performed.*

*At the close of the current semi-annual period, the OIG and its contractor have substantially completed key audit tasks including: the development and refinement of the comprehensive audit plan, an internal control and compliance review, and substantive testing of the FY 1999 line items. Draft versions of the independent auditor's report and related reports on internal control and compliance were submitted for agency management's review and outstanding issue resolution. Additionally, FCC management is resolving issues precluding general release of its FY 1999 financial statement.*

*The aforementioned reports identify areas where FCC management needs to concentrate to ensure adherence to Federal accounting standards and processes. To date, draft reports identify six material weaknesses, seven reportable conditions, and seven instances of noncompliance with laws and regulations required to be reported under Government Auditing Standards and OMB Bulletin No. 98-08, Audit Requirements for Federal Financial Statements, amended.*

### ***FACTS Agreed-Upon Procedures Attestation***

*In support of the FY 1999 Audit of the Consolidated Financial Statements of the United States Government, the Department or the Treasury, Financial Management Service requested “non-CFO Act” designated agencies to verify Federal Agencies’ Centralized Trial Balance System (FACTS) data submissions. As part of the verification process, the OIG and its contractor performed procedures detailed in FMS’ Treasury Financial Manual and prepared a report describing such procedures and the results of performing those procedures. These agreed-upon procedures were performed in accordance with American Institute of Certified Public Accountants’ Standards. At the close of the current semi-annual period, the OIG and its contractor have substantially completed the required procedures and drafted the accompanying report. Per OMB and FMS guidance, agreed-upon procedures reports were to be delivered to the General Accounting Office, OMB, and FMS by March 3, 2000 or within one week of issuing the audit report on the agency financial statements. To date, FCC has not finalized its FY 1999 financial statement due to the fact management is resolving issues precluding its general release. The OIG intends to transmit the agreed-upon procedures report once FCC finalizes the FY 1999 financial statement.*

### ***Government Performance Results Act Audit***

*OIG audit staff continue to monitor the FCC’s activity related to the Government Performance and Results Act (GPRA) of 1993. During the reporting period, the OIG conducted initial meetings and completed work relating to the preliminary planning stage of the audit. Recently, the FCC published its first annual performance report as required by GPRA. The scope of our audit is to assess FCC’s GPRA management and reporting systems as follows:*

- update our understanding of and review FCC’s methodology for developing GPRA requirements;*
- assess compliance with the Act;*
- review annual performance plan(s) and report per guidance; and*
- perform verification and validation of sampled performance measures and review status of prior audit recommendations (OIG 98-01; dated 3/3/99).*

### ***Contract Audits***

*OIG auditors continue to provide technical input and assistance to the Manager of the Contracts and Purchasing Center in addressing a contract dispute between a prime contractor and the FCC. In a prior reporting period, the OIG questioned approximately \$236,000 of subcontract labor costs billed to the FCC by the prime contractor. The prime contractor disputed the OIG findings and submitted an approximate \$288,000 counter claim for the same subcontract labor costs. During this reporting period, the FCC’s Manager, Contracts and Purchasing Center,*

*issued a final determination denying the prime contractor's claimed costs.*

### ***Universal Licensing System (ULS) Survey***

*On March 17, 1999, the Chairman of the Federal Communications Commission submitted a report titled "A New Federal Commissions Commission for the 21<sup>st</sup> Century." In this paper, the Chairman outlined his views on how the FCC should function. One of major goals stated in this document is "streamlining and automating the FCC licensing process." A cornerstone of this goal is Universal Licensing System (ULS). The ULS is one of the FCC's largest systems development efforts ever undertaken. A Wireless Bureau project, ULS has several goals, including: The development of an on-line and web based licensing system, the consolidation of eleven Wireless legacy systems into one, the reduction of manual handling by automation of the license processing function, and simplification of the licensing process.*

*OIG auditors have initiated a survey review of the ULS project. The purpose of this survey is to examine the progress of the ULS project and report the results to the Inspector General. To meet this goal, this survey has a series of milestones. The first milestone is to provide an overview of the Universal Licensing System (ULS). The next goal is to analyze and report any identified problems in the ULS development process. The final milestone is to determine if any aspects of ULS need further OIG involvement and review. The survey report will recommend what, if any, additional action the OIG should take on ULS. We anticipate completing this review and issuing a report in the third quarter, FY 2000.*

### ***Disbursements and Accounts Payable Analysis***

*Disbursements traditionally represent a high risk factor to a business entity. To assist in identifying and minimizing this risk, audit activity has been initiated using advanced software tools to identify payments that meet identified exception criteria. After identification, audit work will validate that disbursements are legitimate and accurate and supported by appropriate documentation.*

*The initial objective will be to search for indicators of questionable or unusual disbursement attributes using advanced audit software. This information resides in the Federal Financial System (FFS) other accounts payable databases. Any disbursement meeting this definition will be subject to detailed audit scrutiny.*

*The review will benefit the Commission by determining if the disbursement process is functioning in a manner that minimizes the potential for waste, fraud, abuse, and mismanagement. This system will also act as a check that can identify indicators of possible abuse. We anticipate completing this review and issuing a report in the fourth quarter, FY 2000.*

## ***Web Presence***

*The Internet and the World Wide Web (WWW) have become essential components in conducting business with the FCC. Users can file licenses and applications electronically and access Commission information via the Internet. A key Commission goal is the “paperless FCC,” where filing would occur electronically using services such as the Internet. However, security problems, such as the recent hacker attacks, constitute a significant risk to the fulfillment of these goals. To ensure that the Commission’s “web presence” is secure, the OIG initiated an audit of the FCC’s Web Presence. The objective of this review is to assess the security posture of the FCC’s Web Presence and its associated components. The scope of this review encompasses a review of the primary servers providing web resources, components that provide and secure communication pathways to and from the Internet and between web resources, and hosts providing back-end data sources to web resources. We anticipate completing the Web Presence review in the fourth quarter, FY 2000.*

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# *Investigations*

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## ***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 Office of Special Counsel.*

## ***ACTIVITY DURING THIS PERIOD***

*During this reporting period, fourteen complaints were received in the OIG. All of the complaints have resulted in the initiation of investigations or preliminary inquiries, and eight of the matters were closed. Three complaints were closed because of determinations of no violations of standards of conduct by FCC employees. Five complaints were closed because they were found not to merit further action. Seven complaints are still pending.*

*The one case pending at the beginning of the period was closed. It was closed because the allegations were found not to warrant further action by the OIG.*

## **STATISTICS**

<i>Cases pending as of September 30, 1999</i>	<i>1</i>
<i>New cases</i>	<i>14</i>
<i>Cases closed</i>	<i>8</i>
<i>Cases pending as of March 31, 2000</i>	<i>7</i>

## **SIGNIFICANT INVESTIGATIVE CASE SUMMARIES**

- *The OIG continues to monitor the matter concerning an employee at the FCC's Laurel laboratory facility who was videotaped allegedly stealing government supplies from the facility on multiple occasions. An investigative report was issued on April 9, 1998. The matter was also referred to the Federal Protective Service for consideration of criminal charges. Federal law enforcement authorities have declined to prosecute. Disciplinary action has been taken against the employee. The employee has appealed the disciplinary action and the appeal is currently pending.*

- *On May 2, 1999, the OIG received a complaint that an employee was spending a significant amount of time during normal working hours accessing the E-bay auction program on his Commission computer workstation. Based on the information received, an investigation was initiated. As a result of the investigation, it was determined that during the period in question the employee did in fact expend a significant amount of time during normal working hours accessing the auction program on a Commission workstation. Disciplinary action was taken by management and the matter has been closed.*

- *On September 27, 1999, the OIG commenced an investigation into allegations of employee misconduct with respect to the presentation of a matter before the Administrative Law Judges of the Commission. The OIG determined that the allegations related to the merits of the matter pending before the Commission, and the issues which were the subject of the allegations were in fact formally before the Commission for resolution. Accordingly, the OIG determined that the matter did not warrant action by this office and the matter was closed.*

- *On November 3, 1999, the OIG initiated an investigation into allegations of misconduct and abuse of authority by senior level employees at the Commission. The Office of the Special Counsel had referred the matter to the OIG. The complaint alleged that the employees' conduct in allowing the temporary broadcasting of events at a racetrack and/or involvement with respect to the issuance of an experimental license for the broadcasting at the track constituted misconduct and an abuse of authority. It was alleged that the conduct violated, among other things, the Communications Act and the Code of Federal Regulations pertaining to Commission*

regulations and standards of conduct for federal employees. The OIG was unable to find any evidence of misconduct by the employees or that they had exceeded their authority in allowing broadcasting at the track.

- On November 12, 1999, the OIG received a complaint concerning allegations of possible improper conduct by a Commission employee with respect to the Commission's awarding of a contract for the purchase of specific absorption rate devices. It was alleged or inferred, among other things, that an employee involved in the evaluation process may have improperly released information regarding the bids. An investigation was initiated and is currently pending.
- On November 24, 1999, the OIG initiated a preliminary inquiry into allegations that a former employee may have made or had an improper contact with the Commission in violation of 18 U.S.C. Section 207, which prohibits certain post-employment activities by former employees. The alleged conduct consisted of the making of an affidavit by the former employee, which appears to have been filed with the Commission concerning an issue upon which the former employee had rendered a judgment. The OIG, through investigation, determined that the issue in question was never under consideration by the employee. Accordingly, because of the determination of no violation by the employee, the matter was closed.
- On November 26, 1999, the OIG initiated a preliminary inquiry into the circumstances of the public release of an internal memorandum of the Commission. Through investigation it was determined that the memorandum was released erroneously and that there was no evidence of employee misconduct.
- On December 22, 1999, the OIG initiated an investigation based on allegations of a supervisory FCC employee routinely utilizing his computer workstation to access pornographic sites on the Internet in violation of FCC regulations and provisions of the Code of Federal Regulations concerning use of Government equipment and use of official time. The investigation is currently pending.
- On January 11, 2000, the Computer Security Officer of the Commission's Information Technology Center (ITC) notified the OIG that due to an apparent misuse of the Commission's electronic mail system by an employee, the Commission's outbound electronic mail system shut down on two recent occasions. An initial review of the employee's electronic mail system by the ITC revealed that the shut downs appear to have occurred as a result of the employee generating electronic mail related to the conducting of a music business on Commission premises during working hours. The OIG initiated an investigation, which is currently pending.
- On February 18, 2000, the OIG initiated a preliminary inquiry into allegations by a licensee that a Commission field office employee had abused his official position and harassed the licensee by, among other things, citing the licensee for non-existent telecommunications related violations. The inquiry is currently pending.

• On March 14, 2000, the OIG received a request that it look into the circumstances of the issuance by a bureau of letters of revocation for certain licenses, to determine if there was any wrongdoing by Commission employees. Specifically, the letters, which were dated December 22, 1999 and revoked licenses granted on November 23, 1999, allegedly were not mailed until February 8, 2000. The OIG initiated a preliminary inquiry, which is currently pending.

## **HOTLINE CALLS**

During this reporting period, the OIG Hotline Technician received one hundred and sixty-eight (168) hotline calls to the published hotline numbers of (202) 418-0473 and 1-888-863-2244 (toll free). One hundred and sixty-five (165) of the calls were referred either to the National Consumer Center or to the appropriate federal agency. Three were determined not to warrant investigation or referral by the OIG. 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 Consumer Center at 1-888-225-5322. Examples of calls referred to the Consumer Center 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.

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## ***Legislation***

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### ***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.*

### ***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 monitored those legislative proposals, which directly or indirectly impact on the ability of Designated Federal Entity IGs to function independently and objectively. Those specific proposals concerned proposals to consolidate OIGs and to directly and/or indirectly draw distinctions between presidentially – appointed IGs and Designated Federal Entity IGs, which may have the effect of undermining the role of the latter. Also during this period, in accordance with the Federal Activities Reform Act (FAIR Act), the OIG presented its commercial inventory submission, which was approved by the Office of Management and Budget and published in the Federal Register. The FAIR Act directs federal agencies, commencing October, 1999, to submit each year an inventory of all their activities that are performed by federal employees but are not inherently governmental in nature.*

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## ***Technical Advice and Assistance***

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*During the six-month reporting period covered by this report, OIG management and staff have continued to dedicate resources towards assisting the Commission in those areas where our expertise can provide benefit. For example, OIG personnel have participated in the following projects:*

### ***Systems Development Life Cycle***

*Auditors from the OIG are working closely with Commission representatives to develop a Systems Development Life Cycle (SDLC). The purpose of the SDLC project is to provide a structured process for managing the development of information systems and for managing system modification and operation after systems are deployed in the production environment. During this reporting period, auditors co-hosted a series of sessions with representatives from Commission Bureaus and Offices as well as representatives from the Commission's procurement office and Information Technology Center (ITC). The purpose of these sessions was to finalize the structure of each of the six (6) phases of the SDLC and the SDLC glossary. In addition, OIG auditors are working closely with ITC staff to determine the most effective way to pilot test and implement the SDLC.*

*Because of our work in the development of the SDLC, the OIG was invited to participate in the development of the new information system for the Commission's Consumer Information Bureau (CIB). CIB is piloting the Commission's SDLC methodology that the OIG was instrumental in developing. The OIG will participate in the project by assuming the SDLC's auditor role. Audit staff will also observe the process and issue a report on the results of the use of the SDLC on this project.*

### ***Licensing Working Group***

*The OIG participated on the Licensing Work Group, which was established by the FCC to develop options for streamlining and consolidating the Commission's licensing processes. This effort was performed in support of the Chairman's Draft Strategic Plan, dated August 1999. The work group collected and analyzed information on all phases of the Commission's licensing and authorization of service activities and identified three main options for streamlining these functions. The options ranged from continuing with process improvements that were currently underway within the Bureaus/Offices, through the use of automation to create a virtual Licensing Bureau with a single point of entry and a consolidated database within the existing Bureau/Office structure, to a complete reorganization of the functions and creation of a Licensing Bureau. These options and the work group's methodology were discussed in a report prepared by the Licensing Work Group, "Improving the Commission's Licensing and Authorization of Service Functions – Options for Consideration", dated March 24, 2000.*

### ***Financial Management Advisory Services***

*The OIG provided advisory and assistance service to the Commission as it continues the challenging task of realigning its financial management functions to implement CFO Act financial reporting. Specifically, OIG staff attended working sessions, shared best practices from other Federal agencies, and provided subject matter consulting on Federal financial management initiatives. OIG staff provided extensive assistance to the CFO working group as FCC prepared its first financial statement per OMB Bulletin No. 97-01, amended. Significant assistance was also provided to resolve first year audit issues and expose CFO staff to the requirements of an audit per OMB Bulletin No. 98-08, amended. The OIG and FCC management are fostering a relationship that will facilitate CFO Act financial reporting at the Commission.*

- *Provided technical advice to the Office of Financial Operations regarding the design of Form 159 – Remittance Advice. The verification of regulatory fee payments was being adversely affected by imprecise instructions to FCC filers. Four specific recommendations to correct the problem were provided to the CFO for his consideration.*

### ***Procurement Advisory Services***

*In the OIG's efforts to provide comprehensive contract audit services to the FCC's Contracts and Purchasing Center, the OIG also advises the Commission's contracting officers (COs) on contract and contractor financial and performance matters that do not require contract audits. OIG contract auditors performed the following contract advisory services during this reporting period:*

- *Advised the CO on a government caused work disruption issue. The CO sought advice about whether a time and materials service contractor, who was not notified in advance, should be reimbursed or be required to take unreimbursed leave for time lost when the FCC moved the contractor to a new location within the FCC headquarters building. OIG advice resulted in the CO notifying the contracting officer's technical representative (COTR), because the contractor did not receive adequate notification of the disruption, the contractor would have to be compensated.*
- *Advised a contracting officer's technical representative (COTR) on a contractor time verification oversight issue. The COTR sought advice about verifying hours claimed by contractor employees performing services under his/her task order in order to improve the audit trail for approving monthly invoices for payment. OIG advice resulted in the COTR instituting new daily sign in/out procedures by requiring his/her contractor employees to e-mail the COTR when they arrive and depart each day.*
- *Accompanied and provided support to the Contracts and Purchasing Center Manager*

*and CO when they met with contractor representatives who were disputing prior contract constructive change order proposal audit findings. The contractor represented that they had new information that would prove the audit findings wrong and convince the CO to concur with the contractor's position. The meeting concluded with the contractor not even trying to dispute the audit findings. Instead, the contractor representative took a different tact by proposing that certain of its employees should be moved into higher labor categories and be billed out at a higher labor rate under the contract. As a result, the OIG strongly recommended that the Contracts and Purchasing Center should initiate and require formal contract modification request procedures that require contractors to submit cost proposals and certify to the accuracy of their cost or pricing data. The Contracts and Purchasing Center Manager concurred with our recommendation.*

- *Met with and advised Contracts and Purchasing Center and Office of General Council (OGC) representatives about possible contract audit requirements for the North American Numbering Council (NANC) and Universal Service Administrative Company (USAC) support service contract proposals. Numerous issues were discussed, including Federal Acquisition Regulation (FAR) applicability and requirements and potential "federal fund" implications. As a result, the OIG will not be auditing the NANC proposal, because it changed from a negotiated sole-source to a competitive bid procurement once two or more qualified competitors were allowed to submit proposals.*
- *Provided advisory services to the FCC Automated Time Accountability System Task Force. The Contracts and Purchasing Center sponsored this task force in order to research and investigate different off-the-shelf automated time reporting systems to assist COTRs with verifying contract employee hours for services performed under cost reimbursable contracts at FCC facilities. OIG advisory services on this project continue as of this reporting period.*

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

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

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

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

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

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

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

*No significant recommendations remain outstanding.*

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

*No matters were referred to prosecutive authorities during this reporting period.*

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

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

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

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

7. A summary of each particularly significant report.

*Each significant audit and investigative report issued during the reporting period is summarized within the body of this report.*

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

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

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

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

10. A summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of the reasons such management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report.

*One audit report meets this criteria. The Report on Incurred Costs for Fiscal Years 1995, 1996 and Short Year 1997 (OIG 97-18) was issued in September 1997. This incurred cost audit identified questioned costs of \$265,180. The contractor has formally contested the OIG finding and submitted a counterclaim to the Chief, Contracts and Purchasing Center.*

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.*

**Table I: OIG Audit Reports With Questioned Costs**

<b>INSPECTOR GENERAL REPORTS WITH QUESTIONED COSTS</b>	<b>Number of Reports</b>	<b>Dollar Value</b>	
		<b>Questioned Costs</b>	<b>Unsupported Costs</b>
<b>A. For which no management decision has been made by the commencement of the reporting period.</b>	<b>1</b>	<b>265,180</b>	<b>265,180</b>
<b>B. Which were issued during the reporting period.</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Subtotals (A + B)</b>	<b>1</b>	<b>265,180</b>	<b>265,180</b>
<b>C. For which a management decision was made during the reporting period.</b>			
<b>(i) Dollar value of disallowed costs.</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>(ii) Dollar value of costs allowed.</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>D. For which no management decision has been made by the end of the reporting period.</b>	<b>1</b>	<b>265,180</b>	<b>265,180</b>
<b>Reports for which no management decision was made within six months of issuance.</b>	<b>1</b>	<b>265,180</b>	<b>265,180</b>

**Table II: OIG Audit Reports With Recommendations that Funds Be Put To Better Use**

<b><i>INSPECTOR GENERAL REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE</i></b>	<b><i>Number of Reports</i></b>	<b><i>Dollar Value</i></b>
<b><i>A. For which no management decision has been made by the commencement of the reporting period.</i></b>	<b><i>0</i></b>	<b><i>0</i></b>
<b><i>B. Which were issued during the reporting period.</i></b>	<b><i>0</i></b>	<b><i>0</i></b>
<b><i>Subtotals (A + B)</i></b>	<b><i>0</i></b>	<b><i>0</i></b>
<b><i>C. For which a management decision was made during the reporting period.</i></b>		
<b><i>(i) Dollar value of recommendations that were agreed to by management.</i></b>	<b><i>0</i></b>	<b><i>0</i></b>
<b><i>- Based on proposed management action.</i></b>	<b><i>0</i></b>	<b><i>0</i></b>
<b><i>- Based on proposed legislative action.</i></b>	<b><i>0</i></b>	<b><i>0</i></b>
<b><i>(ii) Dollar value of recommendations that were not agreed to by management.</i></b>	<b><i>0</i></b>	<b><i>0</i></b>
<b><i>D. For which no management decision has been made by the end of the reporting period.</i></b>	<b><i>0</i></b>	<b><i>0</i></b>
<b><i>For which no management decision was made within six months of issuance.</i></b>	<b><i>0</i></b>	<b><i>0</i></b>