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## ***INTRODUCTION***

The Federal Communications Commission (FCC) is an independent regulatory agency exercising authority delegated to it by Congress under the Communications Act of 1934 as amended 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. Reed E. Hundt has been the Chairman of the FCC since November 1993. As of the time of this report, the FCC has three sitting Commissioners; James H. Quello, Rachelle B. Chong, and Susan P. Ness. The President has nominated William E. Kennard, who has served as General Counsel since December 8, 1993, to succeed Chairman Hundt. Harold W. Fuchtgott-Roth, Michael Powell, and Gloria Tristani have been nominated to join Susan P. Ness as Commissioners. The majority of FCC employees are located in Washington, DC. FCC field offices and resident agents are located throughout the United States.

The FCC is actively involved in planning for the consolidation of the Commission into the Portals located at 1250 Maryland Avenue, S.W., Washington D.C. Phase 1 of the move is scheduled for March, 1998. The Office of Inspector General (OIG) is tentatively scheduled to occupy space in the Portals in May, 1998. OIG personnel have worked with responsible officials to ensure that the unique requirements for security and confidentiality of persons wishing to visit the office are fully addressed.

The Commission continues to auction spectrum as authorized by the U.S. Congress in the Omnibus Budget Reconciliation Act of 1993. As more fully detailed in recently issued "FCC Report to Congress on Spectrum Auctions," the FCC has awarded more than 4,300 licenses to auction winners netting bids of \$23 billion with about \$12 billion of this amount collected for the U.S. Treasury to date. Congress has extended the Commission's auction authority to the year

2007, and has expanded the FCC auctions program to encompass more radio spectrum. The OIG continues to place significant emphasis on evaluating and testing the security and reliability of automated systems dedicated to the successful conduct of all phases of the spectrum auctions. In this reporting period, specific emphasis was placed upon evaluating the existing Collection System. OIG auditors established and chaired a steering committee charged with assessing the current status, and projected capabilities of the existing Collection System vice other systems available both commercially off-the-shelf COTS and within the Federal government. This work will continue into the next reporting period and will further encompass audit work in the area of assessing the Commission's system development life cycle methodology.

In the current reporting period, OIG staff reinstated the Field Inspection Program (FIP). The FIP encompasses a traditional inspection methodology which includes: the verification of records (e.g., time and attendance, seized property, and equipment); motor vehicle maintenance; internal control over imprest funds and credit card expenditures; and, employee morale. In addition, in this reporting period, the FIP was geared towards assessing the impact of the FY 1996 reorganization on Commission operations; employees; and, upon local, State and Federal customers. The reorganization entailed the closure of nine attended frequency monitoring stations and three additional monitoring sites located at FCC field offices. In place of these previously manned stations, a national automated monitoring network is now controlled from an existing facility in Columbia, Maryland. Nine of the 25 existing field offices as well as three of the six regional offices were closed. Two technical staff members continue to be assigned as Resident Agents in the nine locations in which field offices were closed.

In conjunction with the aforementioned reorganization, the National Call Center (NCC) was established. The NCC is a clearinghouse for the thousands of inquiries made to the Commission by the public on a monthly basis. Housed in the existing FCC facility located in Gettysburg, Pennsylvania, the NCC uses the latest technology available to respond to queries in a timely manner. In June, 1997, the NCC expanded operations to encompass 35 states. Normal hours of NCC operation are Monday through Friday 8:00 am to 4:30 pm EST. The NCC can be reached toll free by calling 1-888-CALL FCC (1-888-225-5322). Initial feedback regarding the operations of the NCC have been extremely positive. OIG auditors will perform an independent assessment of the NCC in the next reporting period.

The Office of Inspector General has dedicated itself to assisting the Commission as it continues to improve its efficiency and effectiveness. The Inspector General reports directly to the Chairman. The OIG is located in Room 752 in the FCC headquarters building at 1919 M Street, N.W., Washington, D.C. 20554. The office is staffed by the Inspector General, H. Walker Feaster III and seven staff members. Paul Brachfeld serves as the Assistant Inspector General for Audits. Edward W. Hosken Jr. who had served as the Assistant Inspector General for Investigations (AIGI) left to assume the position of Chief Deputy Clerk for Administration,

U.S. Court of Appeals for the Federal Circuit. Robert G. Andary who had formerly served as AIGI, returned to the FCC OIG on July 20, 1997, from his position as the Inspector General at the Federal Labor Relations Authority.

This report includes the major accomplishments and general activities of the OIG during the period April 1, 1997, through September 30, 1997, in accordance with Section 5 of the Inspector General Act of 1978, as amended 5 U.S.C. App. 3, § 5.

## ***AUDITS***

### ***OVERVIEW***

During the reporting period, the Office of Inspector General (OIG) issued four audit reports, one memorandum report and eight draft reports reflecting the results of our Field Inspection Program. OIG auditors also formed and chaired a committee composed of senior FCC management officials dedicated to supporting the Commission's efforts to acquire and implement a financial computer system to track collections information.

The OIG was the recipient of a favorable Peer Review Report dated May 22, 1997. In accordance with bylaws for peer review evaluations adopted by the Executive Council on Integrity and Efficiency (ECIE), each of the 34 Inspectors' General who compose the ECIE, are subject to a rigorous peer review every three years. The peer review process was instituted as a mechanism by which Inspectors General could be evaluated by independent external parties. Results of the peer review reflect that the FCC OIG met all standards promulgated by the Comptroller General of the United States General Accounting Office (GAO). The audit staff was found to be qualified and independent to conduct audits, which were performed with due professional care, and with the required level of quality control. Audits were adequately planned and conducted by properly supervised auditors who compiled sound evidence and working papers. Internal controls and legal and regulatory requirements were identified and evaluated and tested as required by GAO. Finally, all audit reports were issued to appropriate parties in a timely manner and were complete, accurate, objective, clear and concise.

As the Commission focuses on maximizing the efficient use of the public information highway, the OIG continues to work towards ensuring the integrity and data reliability of our own internal network. During this reporting period, we reviewed the security over remote dial-in access to the FCC network. This review was done in conjunction with personnel from the Information Technology Center (ITC) of the FCC. Through this collegial effort, issues identified could be addressed expeditiously so as to mitigate the potential of unauthorized access to sensitive information, loss of data, and interruption in network service. The OIG has established the need for ongoing audit presence in this area as a core component of our mission. The nature of the work performed at the FCC, and the customers that we serve, make the security and integrity of our information systems a paramount consideration.

The OIG continues to dedicate resources towards providing the Commission with contract audit support services. In a climate of maximizing service and deliverables to our users while downsizing the size of the Federal government work force, increasingly, functions are being contracted out to the private sector. Furthermore, the Commission is actively involved in upgrading our automated databases. Related systems development and implementation activity requires a skill set which often can only be attained through program services contracts with the private sector. While the OIG within the FCC is staffed with only eight full time equivalent positions (FTEs), the staff has significant collective experience in performing contract audits. Utilizing the existing skill set, the OIG represents the Commission and the Federal government in ensuring that required deliverables are produced in a timely and efficient manner and at a reasonable and supportable cost. In this reporting period, the OIG identified questioned costs in the amount of \$265,180 and identified unpaid remittances due the government by a contractor of approximately \$20,000, of which full remittance was received.

During this reporting period the U.S. Attorney's Office for the District of Columbia obtained a two count felony conviction against a former sub-contractor to the FCC. The conviction was obtained through the time consuming and dedicated efforts of the U.S. Attorney, agents from the Federal Bureau of Investigations and FCC OIG auditors. For their efforts, three members of the OIG staff received letters of commendation from the Department of Justice. Further details related to this case are encapsulated in the Investigations section of this semiannual report.

In addition to the aforementioned closed case, OIG auditors continued to provide significant input towards the successful discharge of investigative cases conducted by the OIG. Audit staff is working as a part of a multi-disciplinary team with the Assistant Inspector General for Investigations, towards addressing potential criminal and ethical violations by employees and contractors.

Audit reports can generally be obtained via the Internet at the FCC website: [www.fcc.gov](http://www.fcc.gov). However, special review and audit reports which contain sensitive or proprietary information will be restricted to specific individuals and organizations with a need to know.

## ***SIGNIFICANT AUDIT ACTIVITY***

1. FOLLOW-UP AUDIT OF COMPLIANCE WITH PROVISIONS OF THE PROMPT PAYMENT ACT  
(OIG 97-5)

The report was issued June, 1997

The objective of the audit was to evaluate and assess the corrective actions which were instituted as a result of recommendations contained in the report issued by this office in March, 1994. An additional objective was to assess the impact of the Commission's recent conversion from the National Finance Center (NFC) to the Federal Financial System (FFS) and to determine the impact this conversion has had on compliance with provisions of the Act.

The auditors identified that two out of the five recommendations from the 1994 audit report have not been implemented and that the conversion to the FFS has resulted in 25 percent of invoices paid during FY 1996 being paid late. However, since interest penalties dropped significantly after the first half of FY 1996 and this trend continued through the first two quarters of FY 1997, no additional recommendations were made in the report.

2. AUDIT OF CONTRACTING OFFICER TECHNICAL REPRESENTATIVE (COTR) PROGRAM (OIG 97-7)

The report was issued July, 1997

The primary objective of this audit was to evaluate the FCC's COTR program to determine overall compliance with existing policies and procedures and assess the integrity of related internal controls.

Audit findings identified that the Acquisitions Branch has taken steps to upgrade the quality and performance of FCC COTRs. A general commitment to ensure that COTRs are performing in a professional capacity exists within the office. However, the volume of workload and limited staffing have an adverse effect on their ability to fully address this commitment. The auditors identified that COTRs were not consistently maintaining well documented and organized contract files. This condition resulted in an incomplete audit trail necessary to validate that the contractors had met contractual requirements and that related invoices were timely, accurate and legitimate. The monitoring of COTR performance has also been inadequate to ensure that they are performing their assigned duties.

The audit report contained recommendations for corrective action. Management concurred with each of the recommendations.

3. REPORT ON INCURRED COSTS FOR FISCAL YEARS 1995, 1996 AND SHORT YEAR 1997 (OIG 97-18)

The report was issued September, 1997

OIG Audit Report 96-08 identified that a subcontractor to a prime FCC vendor exhibited labor timekeeping internal control weaknesses on a time and material contract (T&M) to include the failure of:

- the President of the firm to enter start and end times on his daily timesheet;
- employees to record their time on a daily basis;
- the company to maintain timesheets as controlled documents;
- the company to train employees as to proper timekeeping procedures; and,
- the subcontractor to distribute written timekeeping policies and procedures to employees.

These findings related to the subcontractor and potential billing irregularities resulted in additional OIG audit and investigative activity. This incurred cost audit identified questioned costs of \$265,180. Of that amount, \$235,002 resulted from the lack of adequate records to support 2,332.3 hours billed to the FCC by the Information Systems Consultant.

4. SPECIAL REVIEW: INTERNET PENETRATION ANALYSIS (OIG 97-2)

The report was issued September, 1997

The objective of this special review was to evaluate the security of the Commission's connectivity to the Internet. To accomplish this objective, the review team (which incorporated members of the FCC Information Technology Center (ITC)) conducted systematic attacks on the FCC computer system ranging from that of an internet user with strong technical skills to an internal FCC user with all information about the Commission's Internet connection and internal network.

During the review it was determined that portions of the Commission's network were vulnerable to compromise. In the opinion of the team, had the intent of the attack been malicious, the compromises could have resulted in the disruption of network services and the loss of data.



A detailed report outlining the specific nature of the attacks and how the OIG was able to exploit vulnerabilities within the Commission network infrastructure was provided on a "need-to-know" basis to a limited number of personnel within the ITC. Following each phase of the review, members of the review team met with system administration personnel to discuss specific conditions identified during testing. Although the OIG did not verify within the scope of this review that each vulnerability was corrected, the auditors were informed by ITC officials that this had been accomplished.

This report will not be made available to the public or placed on the FCC website due to the sensitive material contained within.

5. MEMORANDUM REPORT: ITS INCORPORATED

The report was issued July, 1997

On July 26, 1996, the FCC entered into a contract with ITS Incorporated (FCC 96-11) to provide the public with copies of licenses, lists of licenses and all manner of other FCC documents which are not restricted from public access. In response to allegations of contractual violations of terms related to ITS billing of FCC customers, the OIG performed an analysis of the contract and related deliverables to the public. While the allegations of contractual service violations were not fully supported, it was identified during the performance of the work that, under contractual provisions, the contractor was to remit to the Government approximately \$21,000 for consolidated lease space at FCC facilities per annum. No record of payments had been identified nor had a mechanism been established to facilitate the payment which would be directed to the General Services Administration (GSA).

On October 7, 1997, the OIG was notified by the Chief, Acquisitions Branch, that rental payment from ITS Incorporated for approximately \$20,000 had been received. The OIG is continuing to monitor the performance of ITS.

## ***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 program and oversight responsibilities. All such 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.

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

During this reporting period, fifteen complaints were received in the OIG. Two of the complaints have resulted in the initiation of investigations, both of which are still pending. Seven of the complaints were closed because the allegations were found to be without merit, and one of the complaints was referred to an FCC Bureau for appropriate action.

Two investigations pending at the beginning of the reporting period were closed. One closure resulted from a determination that the available evidence did not support the alleged violation. The second closure resulted in a referral to FCC management for administrative action against a number of FCC employees. Administrative action is pending against the employees.

During this reporting period, the OIG continued to conduct investigations utilizing a multi-disciplinary approach using the forensic and computer expertise of OIG auditors. One OIG auditor provided support for the prosecution of two FCC subcontractors by analyzing complex

financial records and tracing fraudulent financial transactions. Another OIG auditor trained in detecting and investigating computer crime has supported an ongoing prosecution of an FCC employee involving the use of an FCC computer, and has supported another OIG investigation.

***STATISTICS***

Cases pending as of March 31, 1997.....	10
New cases.....	15
Cases closed.....	10
Cases pending as of September 30, 1997.....	15

***SIGNIFICANT INVESTIGATIVE CASE SUMMARIES***

•In a matter referred to the U.S. Attorney for the District of Columbia and jointly investigated by the OIG and the FBI, two former FCC subcontractors pled guilty to Federal offenses. The guilty pleas were entered in U.S. District Court in Washington D.C. on August 25, 1997. Leon Clements pled guilty to Mail Fraud and subscribing to a false tax return. Virginia Stephens pled guilty to aiding and assisting the subscribing to a false tax return. Restitution to the FCC was part of the plea agreements. Sentencing is scheduled for November 21, 1997. The OIG continues to pursue administrative issues arising out of this investigation.

•An investigation referred to the Public Integrity Section of the Department of Justice Criminal Division in December 1994 remains open pending final action by prosecutors. The matter involves a potential post-employment conflict of interest violation by a former FCC official.

•A case involving an employee's use of an FCC computer to download possible child pornography remains open pending prosecutive action in Howard and Baltimore Counties in Maryland. The OIG continues to assist both jurisdictions in resolving this matter. The OIG is attempting to address issues regarding internet access by FCC employees, and is coordinating efforts with the FCC Computer Security Officer.

•An investigation into allegations that employees within an FCC Bureau were operating gambling pools using official time and resources was closed. The investigation corroborated the allegations and the matter has been referred to management for administrative action against the

operators of the pools as well as against supervisors who indirectly condoned the activity by participating in the pools. This office continues to provide support to management in pursuing appropriate administrative action. Investigative recommendations were made to FCC ethics officials to educate employees about laws and regulations prohibiting such gambling.

- An investigation into possible violations of the Privacy Act through a disclosure on the FCC e-mail system was closed when it could not be established that the information disclosed came from records protected by the Privacy Act.

### ***HOTLINE CALLS***

During this reporting period, the OIG Hotline Technician instituted a recorded message to greet callers to the OIG Hotline. Previously, callers to the Hotline complained about a variety of communications-related issues having nothing to do with any matters within the jurisdiction of the OIG. For example, in the last reporting period there were 125 calls to the published hotline numbers, (202) 418-0473 and 1-888-863-2244 (toll free), of which less than 1% dealt with complaints within the OIG jurisdiction. Now callers are instructed to call the FCC National Call Center, 1-888-225-5322, if their complaint concerns phone service, local cable providers, long-distance carrier slamming, interference, or similar complaints within the program responsibility of other FCC bureaus and offices. As a result of the new recording, actual hotline complaints have decreased.

## ***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***

Counsel to the IG served on the Office of Legislative and InterGovernmental Affairs (OLIA) Legislative Working Group for the 105th Congress. The IG counsel also monitored the Legislative Status Report prepared by OLIA for bills possibly affecting the Commission or the Office of the Inspector General.

## ***MANAGEMENT AND ADMINISTRATION***

During the six-month reporting period covered by this report, the FCC OIG has continued to dedicate staff towards assisting the agency in areas in which our expertise can provide benefit. This emphasis is perhaps best reflected in two major projects, the Field Inspection Program (FIP) and the Collections System Steering Committee.

### Field Inspection Program (FIP)

The FIP is a program by which OIG staff travel to field offices and resident agent locations to perform comprehensive inspections. The inspection team visited the following locations:

- South Central Regional Director- Kansas City, Missouri
- Western Regional Director- San Francisco, California
- Kansas City Field Office
- Tampa Field Office
- San Francisco Field Office
- San Diego Field Office
- Miami Resident Agents
- Norfolk Resident Agents
- Houston Resident Agents

Prior to OIG traveling to the field, detailed interviews were conducted with personnel within the Compliance and Information Bureau (CIB), to whom field personnel report. Additional meetings were held with senior officials from most headquarters bureaus and offices. The focus of these interviews was the identification as to the services that CIB was performing for other bureaus and offices and the connectivity between the field and headquarters.

At each location a detailed checklist, developed to assess compliance with Federal government and internal FCC rules and regulations, was completed. The team conducted interviews with FCC staff and persons/organizations serviced by the field (to include Federal and State agencies and entities and Congressman Pickett of the Second District of Virginia) to obtain feedback on operational effectiveness and efficiency and identify impediments which may exist to the realization of optimal performance. The FIP team also searched for best practices which may be transportable from one field location to another. Likewise, the inspection team sought to identify impediments to effective and efficient operations of field personnel..

In September, 1997, individual draft reports for each office inspected as well as a summary report were provided to the Chief, CIB for comment. The final reports will be issued in the next reporting period.

#### Collection Systems Steering Committee

In May, 1997, the OIG initiated a special review of the FCC Collection System. The auditors identified that the existing collection system was not meeting Commission tracking or reporting requirements.

The Collection System had originally been developed to meet requirements related to fee collections. With the passage of the Omnibus Budget Reconciliation Act of 1993, the FCC collection requirements changed as the activity towards auctioning off spectrum was initiated. To date the FCC has awarded more than 4,300 licenses to auction winners netting bids of \$23 billion with about \$12 billion of this amount collected for the U.S. Treasury. This program will continue in light of the extension of the Commission's auction authority by Congress, to the year 2007, and expansion of the FCC auctions program to encompass more radio spectrum.

The OIG briefed senior officials within the Office of the Managing Director and Wireless Telecommunications Bureau as to the results of the Special Review. Recognizing the capabilities of the OIG, a determination was made by management to establish a high level steering committee, facilitated by a member of the OIG. The mission of the Collection System Steering Committee is to:

- Conduct an objective assessment of the Commission's collection system.
- Advise management in a single voice on alternative courses of corrective action.

The Collection System Steering Committee has identified that the current collection system does not meet Commission requirements and that the system cannot be upgraded to meet current and projected requirements. The Committee is currently examining alternatives and will be making a formal recommendation to management in November, 1997.

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

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

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

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

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

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

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

No significant recommendations remain outstanding.

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

The potential violation of post-employment restrictions referred to the Public Integrity Section, Department of Justice, on December 5, 1994, is still pending a prosecutive decision by the Department.

In a matter referred to the U.S. Attorney for the District of Columbia and jointly investigated by the OIG and the FBI, two former FCC subcontractors pled guilty to Federal offenses. The guilty pleas were entered in U.S. District Court in Washington D.C. on August 25, 1997. Leon Clements pled guilty to Mail Fraud and subscribing to a false tax return. Virginia Stephens pled guilty to aiding and assisting the subscribing to a false tax return. Restitution to the FCC was part of the plea agreements. Sentencing is scheduled for November 21, 1997.

A case involving an employee's use of an FCC computer to download possible child pornography remains open pending prosecutive action in Howard and Baltimore Counties in Maryland.

A case referred to the FBI Baltimore, Maryland, office involving a possible obstruction of FCC proceedings is pending a prosecutive opinion by the Office of the U.S. Attorney for the District of Maryland.

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

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

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

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

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

10. *A summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of the reasons such management decision has*



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

No management decisions fall within this category.

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

No management decisions fall within this category.

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

No management decisions fall within this category.