Office of Inspector General

Federal Communications Commission

Semiannual Report to Congress

April 1, 2009 through September 30, 2009

The Federal Communications Commission
(left to right)
Mignon Clyburn, Commissioner; Michael J. Copps, Commissioner
Julius Genachowski, Chairman; Robert M. McDowell,
Commissioner, Meredith Attwell Baker, Commissioner

COVER LETTER

OFFICE OF INSPECTOR GENERAL

DATE: October 30, 2009

TO: Chairman, Federal Communications Commission

From: Acting Inspector General

SUBJECT: Semiannual Report to Congress

In accordance with Section 5 of the Inspector General Act of 1978, as amended, 5 U.S.C. App. 3 §5 ("the Inspector General Act"), I have attached my report summarizing the activities and accomplishments of the Office of Inspector General ("OIG") during the six-month period ending September 30, 2009. 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 on the traditional IG functions of investigations and audits, including matters related to the FCC's Universal Service and Telecommunications Relay Services programs. 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.

This report covers a period of transition in which we continue to reassess - and where appropriate adjust - the OIG's priorities and role related to the activities of various agency programs and operations. For example, one issue addressed in this report is the return to the Office of the Managing Director the responsibilities and duties under the Improper Payments Information Act of 2002. During the prior three-year period, a significant number of audits were conducted by Universal Service Administrative Company as directed by this Office. While these audits garnered much-needed data, several initial erroneous payments rate determinations made by this Office now appear to be overstated by varying amounts. This Office is evaluating its initial published erroneous payment rates and hopes to comment further soon. Continuing efforts to maximize the benefits of those audits include a data-mining program to evaluate the data obtained, a first for this Office, and re-examining select audits.

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.

David L. Hunt
Acting Inspector General

Enclosure
cc: FCC Chief of Staff
FCC Managing Director

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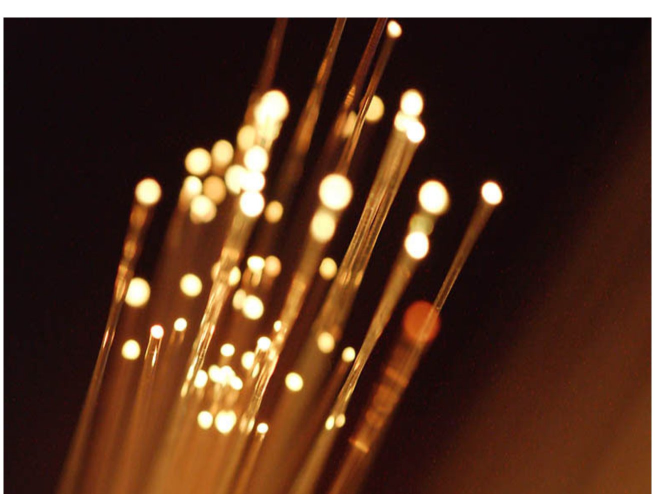
INTRODUCTION

The Federal Communications Commission ("FCC" or "Commission") 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. Julius Genachowski serves as Chairman. Michael J. Copps, Robert M. McDowell, Mignon Clyburn, and Meredith Atwell Baker 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" or "Office") is dedicated to ensuring compliance with the requirements of the Inspector General Act of 1978, as amended 5 U.S.C. App 3 (the "Inspector General Act"), and assisting the Chairman in his continuing efforts to improve the effectiveness and efficiency of the FCC. The former Inspector General ("IG"), Kent R. Nilsson, retired on June 3rd, 2009. The Acting IG, David L. Hunt, reports directly to the Chairman. The IG's staff consists of attorneys, auditors, economists, investigators, management specialists and support personnel. Principal assistants to the IG are: William K. Garay, Assistant Inspector General ("AIG") for Audits; Gerald T. Grahe, AIG for Universal Service Fund Oversight; Thomas C. Cline, AIG for Policy and Planning; Harold Shrewsberry, AIG for Management and Carla Conover, Deputy AIG for Investigations. Mr. Hunt is also AIG for Investigations.

This semiannual report discusses the major accomplishments and activities of the OIG from April 1, 2009 through September 30, 2009, as well as information on the IG's goals and future plans.



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OIG MANAGEMENT ACTIVITIES

Office Staffing

The Office has adequate personnel to meet the current objectives of the Inspector General Act. OIG is now comprised of 39 professionals, four support personnel and two interns. Additional personnel may be required in the future to meet the increasing demands that are being placed on this Office as the Commission's programs increase in size, scope and complexity. Further, 19 Office personnel are funded through monies pursuant to the Consolidated Appropriations Act, 2008 (P.L. 110-161) which specifies that "…$21,480,000 may be transferred from the Universal Service Fund in fiscal year 2008 to remain available until expended, to monitor the Universal Service Fund program to prevent and remedy waste, fraud and abuse, and to conduct audits and investigations by the Office of Inspector General.." These employees allow this Office to aggressively pursue fraud and waste in the FCC's Universal Service program. Their primary function is to work in support of law enforcement agencies nation-wide as these agencies prosecute civil and criminal actions.

Our professional staff consists of well-trained, experienced professionals, most of whom have one or more professional certifications. In our continuing efforts to increase the expertise of our auditors, attorneys and investigators, members of this office have attended classes at the Federal Law Enforcement Training Center ("FLETC"), the Inspector General Criminal Investigative Academy, other Inspectors General training programs and other relevant venues. We were particularly proud to host two FLETC classes at our facilities during the reporting period. We hosted an International Banking and Money Laundering class in May 2009 and a Financial Forensics class in September 2009, and filled both of these classes with FCC OIG staff. By holding these classes within the FCC and not sending almost 50 employees to FLETC in Georgia, this Office enjoyed tremendous savings (in excess of $100,000). We will continue to explore approaches to maximize both training funds and the level of education received.

OIG MANAGEMENT ACTIVITIES

Office Modernization

The Office is implementing new software components and other technologies for managing investigations and audits. The addition of investigative software such as LexisNexis Concordance and the Investigative Management Information System ("IMIS"), will streamline investigative workflow and improve quality and production. The addition of audit management software, TeamMate, will provide auditors with a paperless audit management solution. All the above will modernize the Office and increase efficiencies.

LexisNexis Concordance

OIG selected LexisNexis Concordance to achieve greater control, efficiency and insight across the entire discovery workflow when performing investigative work. LexisNexis helps bring together litigation support resources and offers a greater control and confidence throughout discovery by:

- Establishing a consistent discovery workflow process;
- Identifying and evaluating the relevance of documents more accurately and efficiently;
- Quickly and easily loading, culling, converting, reviewing and producing supporting documentation;
- Linking document review and critical fact management for more effective case analysis; and
- Enhancing team communication and collaboration.

IMIS

IMIS is an electronic case management system for investigations. This web-based information system will be accessible from the web browser on any OIG computer. The system will be accessible through the FCC network either directly or through a Virtual Private Network (VPN) over encrypted channels.

OIG MANAGEMENT ACTIVITIES

TeamMate

OIG selected TeamMate audit management software because it provides auditors with an integrated, paperless audit management system, thus eliminating the barriers associated with paper-filled binders and disconnected electronic files. OIG will be relying on TeamMate to increase efficiency and productivity of the entire audit process including: (1) risk assessment; (2) scheduling; (3) planning; (4) execution; (5) review; (6) report generation; (7) trend analysis; (8) committee reporting; and (9) storage.

This audit management software solution streamlines every facet of the audit process to improve workflow and empower the auditor to spend less time documenting and reviewing and more time providing value-added service. The key components of TeamMate's Audit Management Software are:

- TeamRisk - Risk assessment software
- TeamMate EWP - Audit documentation system
- Libraries and TeamStores - Knowledgebase and templates
- TeamMate TEC - Time and expense capture
- TeamCentral - Project and issues tracking database
- TeamSchedule - Resource and project scheduling

Internship Program

The OIG welcomes college interns during the fall, spring and summer semesters. Most of these students take their internships for college credit. Our 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, Xavier University, Liberty College and Northern

OIG MANAGEMENT ACTIVITIES

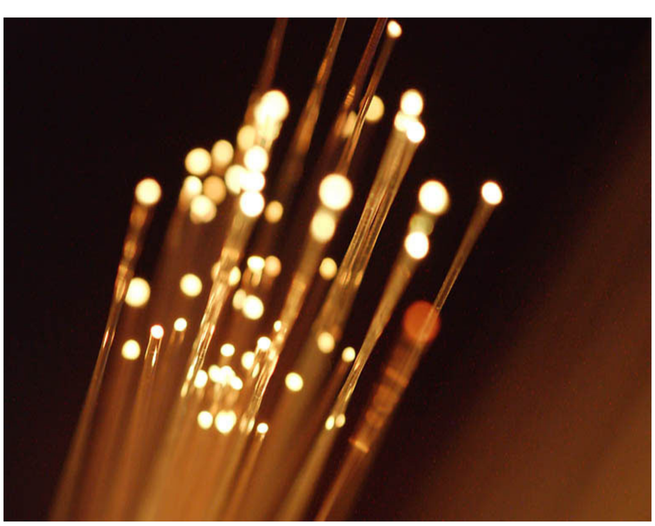
Virginia Community College.

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.

Legislative and Policy Matters

Pursuant to section 4(a)(2) of the Inspector General Act, 5 U.S.C. App. 3 § 4(a)(2), 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 legislative potential 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, such as proposed amendments to the Inspector General Act. In addition to legislative developments, OIG continuously monitors FCC policy development and provides input as appropriate.



AUDIT ACTIVITIES

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AUDIT ACTIVITIES

FINANCIAL AUDITS

FINANCIAL STATEMENT AUDITS

Financial statement audits are mandatory for the FCC and 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 2009 Consolidated Financial Statements

In accordance with the Accountability of Tax Dollars Act of 2002, the FCC prepared consolidated financial statements for the 2009 fiscal year in accordance with Office of Management and Budget ("OMB") Circular A-136, Financial Reporting Requirements, and subjected them to audit. The FCC IG, or an independent external auditor selected by the Inspector General, is required by the Chief Financial Officers Act of 1990 ("CFO Act"), as amended, 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, KPMG LLP ("KPMG"), an independent certified public accounting firm, is performing the audit of FCC's FY 2009 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.

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

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audits include audits of government contracts and grants with private sector organizations, as well as government and non-profit organizations. These audits determine an auditee's compliance with contractual terms, Code of Federal Regulations, Title 41, Federal Acquisition Regulations ("FAR"), and policy and procedures of the FCC Office of Managing Director.

Fiscal Year 2009 Federal Information Security Management Evaluation and Risk Assessment Act

The Federal Information Security Management Act ("FISMA") focuses on the programmatic management, implementation, and evaluation of agency security systems. A key FISMA provision requires that each IG perform an annual evaluation of his or her agency's information security programs. The objective of this evaluation is to examine the Commission's security program and practices with respect to major information system applications. To address this requirement, we have contracted with KPMG to test the effectiveness of security controls for a subset of the Commission's systems and the FCC's privacy management system. This project is in progress and should be completed by the end of the next reporting period.

Audit of the Federal Communications Commission Contract Administration for Recovery Act Procurements

We have contracted for an audit of FCC contracts funded by the American Recovery and Reinvestment Act of 2009 ("ARRA") (P.L. 111-5) and related internal controls. Under the ARRA, the National Telecommunications and Information Administration ("NTIA") of the Department of Commerce may transfer up to $90 million in funding to the FCC for consumer education and outreach. Initiatives to be funded include media buys, walk-in assistance centers, in-home converter box assistance, call center support services, upgrades to improve the Commission's DTV website, printing DTV publications and translating those publications to benefit non-English speaking communities, and travel for staff providing local support, particularly in markets with a significant percentage of households receiving television signals over-the-air.

The purpose of this audit is to determine if contracts funded by ARRA were awarded and administered in compliance with provisions of the ARRA. The specific objectives of the audit are to:

(1) Ensure that contracts funded by the ARRA were awarded and administered (to include pre-solicitation, solicitation, evaluation, award, and administration) in accordance with provisions of the ARRA, the FAR, and FCC policies, procedures and provisions.

(2) Evaluate the design and implementation of internal controls related to the award and administration of contracts funded by the ARRA.

This audit is in progress.

Additionally, we are working on several other initiatives to provide oversight of the FCC's activities that support the ARRA. We are conducting a review of the data quality for the FCC's ARRA required reporting. We participate in our own reporting activities, to include updates to our monthly activities, ARRA work plans, and identification of high risk areas, and also coordinate with other OIGs to ensure the funds entrusted to the FCC under the ARRA are monitored and spent wisely.

Audit of the Federal Communications Commission Travel and Purchase Card Program

We have contracted for an independent audit of FCC travel and purchase card transactions, which will include (but not be limited to) transactions using funds provided by the ARRA to support ARRA related projects. Agencies that receive ARRA funds are required to implement controls for contracts awarded using covered funds and perform audits to deter or prevent wasteful spending, poor contract or grant management, or other abuses from occurring. This audit will include an examination of travel purchase card transactions made using funds provided by the ARRA and the related internal controls.

The objectives of this audit are to:

(1) Evaluate the design and implementation of internal controls for the FCC's travel and purchase card programs.

(2) Determine if transactions were properly authorized, adequately documented, and used for appropriate, legitimate government purposes.

(3) Determine if the FCC travel card program is being effectively managed using guidance and best practices provided in OMB Circular A-123, Appendix B, Improving the Management of Government Charge Card Programs.

This audit is in progress.

Audit of the Federal Communications Commission Electronic Travel System (e-Travel)

We have contracted for an independent audit of the FCC's Electronic Travel System ("e-Travel") and the related internal controls. The Federal Travel Regulation ("FTR") requires government agencies, with a few exceptions, to deploy and use electronic travel systems to plan and manage official temporary duty travel. The e-travel system is a web-based, end-to-end travel management system used to plan, authorize, arrange, process, and manage official FCC travel. This audit will determine if the FCC's electronic system has been fully implemented, is being used effectively and efficiently for managing FCC travel, and whether the FCC is realizing all of the benefits of the electronic system (e.g., streamlined processing, faster payments, less time to prepare travel authorizations, make travel arrangements, and file travel claims). The audit will also evaluate the adequacy of the FCC's internal controls related to the electronic travel system.

The objectives of this performance audit are to:

(1) Evaluate the design and implementation of internal controls for the FCC's electronic travel system.

(2) Determine if the FCC's electronic travel system meets the requirements of the E Government Act of 2002 and has been effectively implemented, as required by the FTR.

(3) Determine if the FCC's Travel System is in compliance with the JFMIP Travel System Requirements (JFMIP-SR-99-9, July 1999).

(4) Determine if the FCC's electronic system has been fully implemented, is being used effectively and efficiently for managing FCC travel, and whether the FCC is realizing all of the benefits of the electronic system (e.g., streamlined processing; faster payments; less time to prepare travel authorizations, make travel arrangements, and file travel claims).

This audit is in progress.

Audit of Federal Communications Commission Compliance with FSIO Requirements for Managerial Cost Accounting Systems

We have contracted for an independent audit of the FCC's compliance with the Financial Systems Integrations Office ("FSIO") (formerly Joint Financial Management Improvement Program) Federal Financial Management System Requirements for Managerial Cost Accounting. The requirements are stated in publication number FFMSR-8, dated February 1998, and titled "System Requirements for Managerial Cost Accounting" which can be found at www.fsio.gov. Managerial cost

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accounting systems are to provide reliable timely information on the full cost of federal programs, their activities and outputs. Such systems assist stakeholders in managing programs, planning, decision making and reporting in accordance with missions and roles established by Congress. This audit is in progress.

The objectives of the audit are to:

(1) Verify that FCC's managerial cost accounting system meets FSIO requirements.

(2) Evaluate the design and implementation of internal controls related to the managerial cost accounting system.

Audit of Federal Communications Commission Compliance with FSIO Requirements for Property Management Systems

We have contracted for an independent audit of the FCC's compliance with FSIO for Property Management Systems. The requirements are stated in publication number JFMIP-SR-00-04, dated October 2000, and titled "Property Management Systems Requirements," which can be found at www.fsio.gov. Federal agency property management systems are critical for establishing financial accounting and maintaining physical accountability over property. Such systems assist property managers in managing their property in accordance with missions and roles established by Congress. This audit is in progress.

The objectives of the audit are to:

(1) Verify that FCC's property management system meets FSIO requirements.

(2) Evaluate the design and implementation of internal controls related to the property management system.

AUDIT ACTIVITIES

UNIVERSAL SERVICE FUND (USF) OVERSIGHT

During this reporting period we have continued our assessment of the OIG's oversight of the Universal Service Fund. The OIG is placing a strong emphasis on coordinating among Commission bureaus and offices and with the Universal Service Administrative Company ("USAC"), which administers the USF at the direction of the FCC. We are firmly committed to sharing the experience and expertise gained by the OIG. We are developing a risk assessment-based audit approach for USF oversight, considering the scope of the program, the parties involved and their respective roles, our experience and other available information.

The USF team currently consists of one Assistant Inspector General, three Directors and six staff auditors. There is also a Special Counsel for USF who reports directly to the IG.

There are four universal service support mechanisms:

- High Cost support ensures that consumers in all regions of the nation have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas.

- Schools and Libraries support, commonly known as "E-Rate," provides discounts to assist schools and libraries in the United States to obtain affordable telecommunications and Internet access.

- Low Income support is designed to ensure that telecommunications services are available to low-income customers at just, reasonable, and affordable rates. Similar programs have existed since at least 1985. The Telecommunications Act of 1996 reiterated their importance by including the principle that "consumers in all regions of the nation, including low income consumers . . . should have access to telecommunications and information services . . ."

- Rural Health Care support is to

provide reduced rates to rural health care providers for telecommunications services and Internet access charges related to the use of telemedicine and teleheath. The Rural Health Care Pilot Program is a pilot funding program designed to facilitate the creation of a nationwide broadband network dedicated to health care, connecting public and private non-profit health care providers in rural and urban locations.

FCC rules require all telecommunications providers of international and interstate telecommunications services, including providers that offer interstate telecommunications for a fee on a non-common carrier basis, interconnected Voice Over Internet Protocol ("VOIP") providers, and payphone providers that are aggregators, to contribute to the USF.

Oversight and audit coverage for all programs consists of:

- targeted recipient, beneficiary and contributor audits;
- monitoring of audits performed by USAC Internal Audit Division ("IAD") staff;
- monitoring of beneficiary audits contracted by USAC;
- audits of selected FCC components; and
- audits of selected USAC components.

High Cost Program

During this reporting period, we substantially completed high cost program attestation examinations of eight Sprint Nextel Corporation USF high cost support recipients. These audits were completed as part of the Round 3 IPIA attestation audit program. We audited five former Sprint recipients, including Sprint-Arizona, Georgia, Indiana, Puerto Rico and Texas, and three former Nextel recipients, including Nextel-Georgia, Hawaii, and Pennsylvania.

As of the end of this reporting period, all fieldwork is complete, the exit conference has been completed, independent referencing is nearly complete, and the draft report is in final review for all eight audits. It is anticipated that all reports will be issued during the next reporting period.

On September 10, 2009, USAC released a report (Final Report and Statistical Analysis Regarding the 2006-2007 Federal Communications Commission Office of Inspector General High Cost Program Beneficiary Audits or "USAC High Cost Report") presenting an analysis that revised downward significantly the previously reported erroneous payment rate for the High Cost program for Round 1. This Office reported an initial erroneous payment rate of 16.56 percent (Initial Statistical Analysis of Data from the 2006/2007 Compliance Audits, dated October 3, 2007). USAC's reported rate was 2.74 percent. Although this Office is still evaluating the USAC High Cost Report, it appears clear that the erroneous payment rate set forth in initial OIG Report is too high at a statistically significant level. Once our evaluation is complete, we will comment further on USAC's report.

Schools and Libraries Program

During this reporting period, we substantially completed an attestation examination of the San Bernardino Unified City District in San Bernardino, California. This audit was also part of the Round 3 IPIA attestation audit program. The audit included testing of 27 assertions related to 2006-2007 disbursements of $7,780,214. The disbursements examined included the four types of USF schools and libraries program funding categories including internal connections, basic maintenance of internal connections, Internet access, and telecommunications services. The school district includes 65 schools and over 56,000 students.

As of the end of this reporting period, fieldwork is complete, a preliminary exit conference has been completed, and the workpapers and draft report are being finalized. It is anticipated that the final report will be issued during the next reporting period.

Although outside of this reporting period, USAC submitted a report presenting an analysis revising downward the previously reported initial erroneous payment rate for the Schools and Libraries program for Round 1. The amount of this proposed reduction was less than in the USAC High Cost Report cited above. Again, once our evaluation has been completed, we will comment on this USAC report.

Low Income Program

On July 28, 2009, OIG withdrew the 100% erroneous payment determination for the USF Low Income program made in the prior December 12, 2008 OIG report. The basis for the original determination of a 100% erroneous payment level in the low income program was that the source documentation could not be provided as needed to permit verification of the calculations of the program amounts disbursed. After reviewing USAC's response to the OIG report and additional information, and considering that OIG did not conduct an audit or other structured examination of the disbursement system, it was decided to withdraw the 100% erroneous payment level for the low income program. OIG is initiating a review of the low income disbursement system.

During this reporting period, we substantially completed a self-initiated Low Income performance audit. The draft report for the YourTel America, Inc. audit was issued March 31, 2009 and we expect to issue the final report during the next reporting period.

Contributors

During this reporting period, we substantially completed 12 USF contributor attestation examinations. As of September 30, 2009, we have two final reports in the last stage of review. For the 10 other examinations, we have completed fieldwork, summarized workpapers and completed draft reports. As of this reporting period, all draft reports are in various stages of the review process. We anticipate issuing all draft and final reports during the next reporting period.

The examinations have disclosed the following findings and conditions:

- One company did not file required FCC Form 499-As and report USF-related interstate revenues and may be liable for assessments of additional USF contributions.

- One company overstated USF-related interstate and international end-user revenues in 2007.

- One company did not submit a required form for reporting international revenues.

- Three companies did not follow rules to qualify for the reseller's revenue exemption regarding USF-related interstate and international end-user revenues.

- A local and long distance reseller did not report millions of dollars of interstate and international revenues and, therefore, did not pay any associated USF contributions. It reported all revenues as intrastate.

- One company misclassified VOIP related revenues as non-telecommunication revenues and, therefore, did not pay any associated USF contributions.

Also during this reporting period, we substantially completed a project designed to identify potential non-filers. The USF Contributors Survey project was started in response to information gathered about telecommunication companies not filing Telecommunications Reporting Worksheet (FCC Form 499-A) during FCC OIG contributor audit field work. FCC OIG contracted with an independent accounting firm to attempt to discover federal USF non-filers by comparing listings of active telecommunication companies registered from each state Public Utility Commissions ("PUC") to USAC's main 499-A database. During this period, we received a listing of active registered telecommunication companies from the following state PUCs: Maryland, Delaware, Virginia, Pennsylvania, West Virginia and New Jersey. Out of those six states, the firm identified and researched approximately 50 probable non-filing telecommunication companies for follow-up. The firm's manual research on telecom listings (which may include no longer active companies) gathered from state PUC websites have identified over 1,000 potential non-filing telecommunication companies in 32 states. In September 2009, we issued 49 letters to potential non-filers asking for the companies' position on whether it is required to file FCC Form 499-A. The companies' that claim an exemption to the filing requirement are asked to provide an explanation of and documentation to support their exemption.

As of September 30, 2009, we have received 23 responses. Two companies stated that they will begin filing the FCC Form 499-A. Follow-up to initial replies and additional analysis continues. We expect to summarize and issue a final report on this project during the next reporting period.

Audits of Universal Service Administrative Company Committees

The Office continues to work on audits of two USAC Committees: (1) the Schools and Libraries Committee and (2) the High Cost and Low Income Committee. These committees oversee the administration of USF support mechanisms (see the report section "Universal Service Fund Oversight" for more information). The committees are responsible for actions such as projecting demand for the support mechanisms, administering the application process, and performing audits of support recipients and beneficiaries. Our audits are designed to test the effectiveness with which the USAC committees have met their responsibilities and to identify opportunities for improvement. The objectives of these audits include assessing the management controls that have been established by the committees. These audits are in progress but should be finalized soon.

OIG Role in the FCC Improper Payment Information Act ("IPIA") Assessment

The transitions underway both in the IG's role of overseeing the FCC's universal service program and implementation of the Improper Payments Information Act of 2002 (Public Law No: 107-300) ("IPIA") are of necessity intertwined. Under the IPIA, agencies are required to review programs and activities they administer and identify those which may be susceptible to significant erroneous payment problems.

The IPIA was enacted to be a management tool and expanded the Government's abilities to identify and reduce erroneous payments in government programs and activities. The goal of the IPIA is to improve the integrity of government payments and the efficiency of its programs and activities. In combination with implementing guidance from the Office of Management and Budget ("OMB"), executive agency heads are required to review their programs and activities annually in order to identify and report on those that may be susceptible to significant improper payments. The annual report is to include an estimate of the amounts improperly paid and a description of actions taken to reduce them.

The IPIA does not expressly establish a role for OIG. OMB guidance on the IPIA notes that because the IPIA recovery audit program is an integral part of the agency's internal control over payments, and therefore a management function, independence considerations would normally preclude the IG and other agency external auditors from carrying out management's recovery audit program. Agencies' Inspectors General and other external agency auditors are encouraged, however, to assess the effectiveness of agencies' recovery audit programs. From 2006, however, and until this reporting period, the OIG had an expansive role in the FCC's IPIA assessment process, including determining the timing and method of IPIA implementation and the determination of erroneous payment rates. USAC administered the numerous IPIA attestation audit engagements under OIG direction.

Under Section 2 of the Inspector General Act, the IG has the independent discretionary authority to conduct audits and investigations relating to the agency's programs and operations, such as the federal universal service program. The IG is to provide leadership and coordination for the agency, and to recommend policies designed to promote economy, efficiency and effectiveness and to prevent fraud, waste and abuse in agency programs and operations. Under Section 9(a)(2) of the Inspector General Act, when an OIG is established in an agency, the preexisting functions, powers and duties within the agency that are necessary for the performance of the statutory mission and duties of the OIG are transferred to it, but the statute specifically prohibits the transfer of any program operating responsibilities from the agency to an OIG.

During this reporting period, this Office concluded that a large part of the OIG's expansive role in the FCC's IPIA assessment process since 2006 was more appropriately within the purview of the Commission operating responsibilities delegated to the Office of Managing Director. OIG is therefore shifting back toward more focused and traditional OIG audits of USF recipients, contributors and beneficiaries. The Acting IG is taking steps to ensure that all OIG audits, whether USF-related or not, are appropriate to OIG's mission and are not duplications of or substitutions for agency operational responsibilities. Regulatory compliance audits performed by or under the direction of the IG will not serve as a substitute for the agency's separate statutory or regulatory obligations. The IG will review the agency's activities in IPIA implementation and compliance responsibilities, however, in performing its traditional oversight role.

Data generated from the extensive IPIA process was intended for use in meeting statutory goals of the IPIA and the Communications Act, as amended. Although not inconsistent, each statute has distinct goals and emphases. It appears that both the actual data analysis and the combined reporting of the results of the IPIA attestation examinations did not always adequately distinguish among or fully serve those goals. As a result, the information provided to the OIG, Congress, the Commission and the public was less clear and less meaningful than it should have been. The OIG continues to evaluate the lessons that it has learned from its involvement in the IPIA attestation audit process, both in terms of information regarding the program and recipient and beneficiary compliance and also as to how we perform our own audit and oversight functions. Future reports will discuss these matters in more detail.

Further, this Office is committed to gleaning data from the attestation audits examinations to establish a data-mining project. This project will support future OIG USF audits by allowing us to utilize vulnerability assessment and risk analysis procedures to select USF recipients and beneficiaries. The additional data and analysis could also support OIG USF investigations, both current and future.

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 the United States Department of Justice investigations of USF beneficiaries and recipients. To implement the investigative component of this effort, we have developed working relationships with various components of the Department of Justice. As of the end of this reporting period, we are directly supporting 18 investigations. Please refer to the Investigations section of this report for further information.

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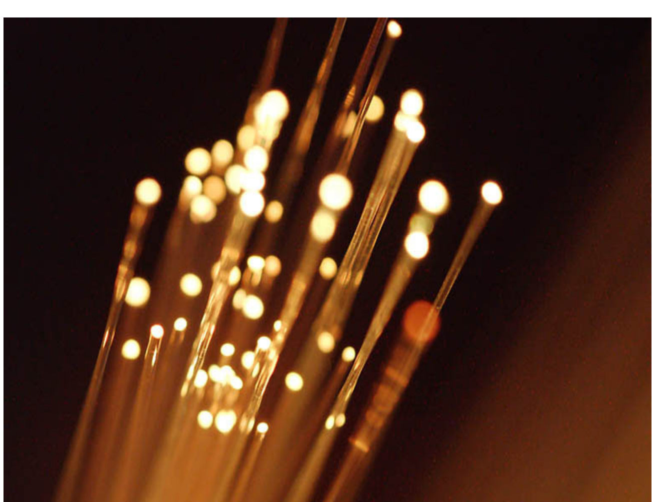

INVESTIGATIONS

ACTIVITY DURING THIS PERIOD

SIGNIFICANT ACTIONS

OIG HOTLINE

INVESTIGATIONS

Office of Inspector General 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, abuse or criminal activity. These investigations often address allegations of fraud in FCC programs, such as the 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 Office directly with concerns about fraud, waste, abuse or other inappropriate behavior. Individuals call or e-mail the OIG Hotline, or send complaints through the United States Postal Service. 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 members of Congress refer matters to 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 of fraud, waste or abuse, the AIGI or a staff investigator 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 OIG are reviewed for assignment and priority in a “triage” method. Matters that have the potential to significantly impact federal funds, important FCC missions or programs, or the basic integrity and working of the agency receive the highest priority for investigation and assignment of resources.

The Office works on a large number of investigations that vary greatly in complexity and variety. We investigate complex cyber crime allegations, cases involving large criminal conspiracies, and on matters throughout the United States and its territories. These complex and wide-ranging cases often require substantial investigative expertise and resources that 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 the law enforcement components of other agencies, especially including the OIG of other federal agencies. This cooperation within the law enforcement community has saved our office valuable time and expense on many occasions. The FCC OIG is often on the receiving end of this cooperation, so we are gratified to be able to note that in this reporting period the FCC OIG was able to provide assistance to law enforcement officers from the Drug Enforcement Agency in one of their investigations and to the U.S. Department of Justice in a bankruptcy fraud matter.

The AIGI and 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

INVESTIGATIONS

resulted in a history of successful prosecutions and indictments, and of restitution for such fraud to the USF.

ACTIVITY DURING THIS PERIOD

Statistics

Cases pending as of October 1, 2008	96
New Cases	14
Cases Closed	20
Cases pending as of March 31, 2009	90

At the outset of this reporting period ninety-six (96) cases were pending. Thirty-three (33) 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 ten (10) non-USF complaints and four (4) USF complaints were received during the current reporting period. Over the last six months, twenty (20) cases, fifteen (15) USF and five (5) non-USF related, have been closed. As a consequence, a total of ninety (90) cases are pending, of which eighteen (18) relate to the USF program. The OIG continues to, coordinate and/or support activities regarding those eighteen (18) investigations. The investigations pertaining to the pending seventy-two (72) non-USF cases are on-going.

SIGNIFICANT ACTIONS

Modernizing FCC OIG Investigations

As with the FCC as a whole, improving the efficient use of scarce resources by modernizing computer-aided forensics and other technical assets in our work is an on-going effort for OIG Investigations. During the reporting period, we made especially significant strides towards this end by acquiring the necessary equipment and material to implement enhanced electronic forensic tools and, in part through the generosity of other federal OIGs, a new and robust electronic case management system already developed and refined specifically to meet the needs of a federal OIG Investigations office. We also established a relationship with the Department of Defense Cyber Investigations Training Academy to increase the knowledge and skill base of Investigations staff in computer forensic work and cybercrime investigations. We continue to work on these and related efforts to find and utilize modern technology in ways that will leverage our scarce resources for the most efficient and effective investigation and prosecution of fraud, waste and abuse in FCC missions and programs.

Investigations into Fraud in the Federal Communications Commission Telecommunications Relay Services Program

The FCC OIG and the Criminal Division of the U.S. Department of Justice ("DOJ") have been devoting significant law enforcement resources to identify and prosecute fraud in the FCC's Telecommunications Relay Services ("TRS") program, sometimes called the TRS Fund. Recently, there has been partial public disclosure of these investigation activities stemming from the arrest of three individuals allegedly involved in schemes to defraud the TRS program.

TRS permits hearing or speech impaired individuals to communicate with a hearing individual over telecommunications transmissions through the use of an interpreter or communications assistant. Certain private sector entities, that are either part of certified state programs or are certified by the FCC, provide TRS services for telecommunications calls to or from hearing or speech impaired individuals and are then compensated through the FCC's TRS program at a rate, set by the FCC, per minute of use as reported on a monthly basis.

The FCC established the TRS Fund pursuant to section 225 of the Communications Act of 1934, as amended. Section 225 requires the FCC to ensure that TRS are "available to the extent possible and in the most efficient manner to hearing-impaired and speech-impaired individuals in the United States." 47 U.S.C. § 225. The FCC's TRS program is funded by assessments on interstate telecommunications carriers, which are passed on to consumers through the rates that they pay for telecommunications services. The FCC's TRS program is projected to pay out $960 million to providers in the current (July

1, 2009 – June 30, 2010) funding year.

Video Relay Service ("VRS") is a form of TRS that allows individuals with hearing disabilities to use sign language to communicate with voice telephone users through video equipment, a broadband connection, and use of a video interpreter ("VI"). Around 80% of TRS Fund payments are made to VRS providers.

Based on allegations of fraud received from VIs, other employees of VRS providers, and others, OIG initiated investigations into multiple targets in 2008. In mid-December of that year, OIG presented the findings of its investigations to DOJ and shortly thereafter DOJ decided to pursue criminal charges. Joint federal investigations of multiple subjects are on-going. To date, three arrests have been made in Texas and in Florida. U.S. v. Kim E. Hawkins (W.D. Tex.); U.S. v. Yosbel Buscaron and Lazaro Fernandez (S.D. Fl.).

The allegations of conspiracy, fraud and other criminal activity in the TRS Fund that have been made public so far are based on evidence of the following:

- Callers specifically requested that no TRS interpretation be done;
- Calls to numbers that did not require any TRS interpretation (podcasts, interminable holds);
- "Run" call initiating from overseas IP addresses by callers with little or no fluency in sign language (simply leaving a line open without TRS interpretation occurring but reporting the associated minutes for payment from the TRS Fund);
- Implementation of "double privacy screens" (making any communication impossible by blocking the video display for both the calling and called parties);
- VIs calling themselves;
- VIs simply connecting video phones/ computers and letting them run;
- Callers not paying attention;
- Callers disconnecting from one illegitimate call and immediately calling back to initiate another;
- Callers admitted that they were be paid to make TRS calls;

- Use of bogus marketing calls; and
- Call center personnel used fake VI logins to run calls without VI interpreting.

Investigation into Mismanagement and Waste in the Federal Communication Commission Consumer Information Management System

The General Accountability Office referred to the Office allegations concerning the FCC's Consumer and Governmental Affairs Consumer Advocacy and Mediation Specialists ("CAMS") and the computer software developed to support their mission. The referral centered on allegations of gross mismanagement and waste of funds by the Consumer and Governmental Affairs Bureau ("CGB") with regard to the Consumer Information Management System ("CIMS"). The main complaint was that after the Commission spent $3 million on CIMS, the system did not work.

After an intensive investigation, OIG concluded that mismanagement of the CIMS development project by contractor and Commission personnel resulted in the failure of the CIMS project as planned, with monetary, human resource, and program efficiency costs to the agency. Although multiple factors played a part in the mismanagement of the CIMS project, this investigation found that failing to comply with existing Commission systems development policy by establishing and following a complete and adequate Systems Development Life Cycle structure ("SDLC") was the most significant factor in the mismanagement of the CIMS project. We concluded that had an appropriate SDLC been in place and followed by contractor and Commission personnel, the problems that did occur would have been mitigated.

The lack of a SDLC had a substantial negative impact on the CIMS project. It was not, however, the only factor that caused the CIMS product, as originally planned, to fail. Deadline pressure, combined with off-task requests for contractors to produce data reports from existing systems, development protocol breaches (making changes on the fly in the production environment without proper testing), and the turnover and competence of the project's contracting officer's technical representatives ("COTR") all figured into the equation that resulted in the failure.

The most visible event in the troubled history of CIMS was the late-stage attempt to move data from the legacy Operations Support for Complaint Analysis and Resolution ("OSCAR") system to CIMS. OSCAR and CIMS are database systems designed to track and process complaints received by the Commission. OSCAR is a non-relational database, whereas CIMS is a relational database, that is, SQL-based. Non-relational databases use unlinked fields, while relational databases use data tables that can logically link, or relate, to other data tables within the system. This attempt at data migration failed, resulting in major delays in complaint and inquiry processing at the Commission. Analysis done after the attempted migration identified 92 discrete data field mapping errors between OSCAR and CIMS and determined that these mapping errors caused the data migration failure. As data was transferred, 13,000 records became suspect and had to be addressed on an individual basis by a team of CAMS. Instead of taking minutes or hours to migrate data from OSCAR to CIMS, the work created by the failure of the migration took months to complete.

Developmental protocol breaches are the most puzzling aspect found during the investigation. It appears that the contracted CIMS project manager knew that changes should not be made in the production environment; nevertheless, the manager made or allowed such changes to be made. Throughout the course of the investigation, in interviews of people that worked on CIMS, one statement was heard more than any other - changes were made during the rollout "on the fly." Virtually everyone interviewed by OIG stated this fact. Untested changes were introduced in the production environment, apparently unknown to the COTR, and these changes and previously existing mapping issues resulted in the 92 field mapping errors.

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Finally COTR turnover, without a proper SDLC in place and without proper transition procedures, played a part in the failed data migration. With no proper SDLC in place to work as a North Star (i.e., guide), each successive COTR was arriving on the project with a bit less information than his predecessor and each new COTR needed increasing amounts of time to devote to bringing him or herself up to speed. The FCC information technology project management report cites project manager churn as a problem in the CIMS situation, however, it appears that this could as well be an issue of COTR churn and so, to paraphrase the TSTC report:

"The [COTR] turnover on the FCC CIMS project … contributed to an uncertainty as to how the project was truly progressing/transgressing. A lack of transition planning (a Transition Plan) as the project was turned over to each subsequent [COTR] caused each [COTR] to assume the CIMS project was progressing successfully." FCC Assessment of IT Project Management (v1.00), p. 38 (2008).

Ultimately, inadequate managerial oversight of the CIMS initiative and inadequate remediation made this unfortunate result possible.

Since the time of the failed migration, CIMS has been rolled out but in a more limited form than originally planned. It is only with the new Consumer Complaint Management System with its additional costs in time and money, that all of the functionality expected of CIMS appears to have emerged at the Commission

Based on its review and analysis of the documentary and testimonial evidence collected in this investigation, OIG concluded that mismanagement of the CIMS development project by contractor and Commission employees resulted in the failure of the CIMS project. Although multiple factors played a part in this result, the OIG investigation found that failing to comply with existing Commission systems development policy by not establishing and following a complete and adequate SDLC was the most significant factor. OIG also concluded that having an appropriate SDLC in place might have mitigated some of the problems that occurred, thus reducing the monetary, human resource, and program efficiency costs to the agency from the CIMS project history.

Investigation into Allegations of Federal Communication Commission Hiring Improprieties

During the reporting period, the OIG concluded an investigation into allegations of improprieties and administrative problems associated with the posting and filling of a number of positions in the Consumer and Governmental Affairs Bureau ("CGB") by the office of Human Resources Management ("HRM") in the FCC's Office of Managing Director. The case was initiated at the request of the National Treasury Employees Union Chapter 209, which identified 14 specific complainants and six CGB job postings released in the summer of 2008.

The union alleged that: (1) the FCC's "Quick Hire" program is not properly rating applicants; (2) rating panels are not being used according to the union's collective bargaining agreement; (3) a named Human Resources Specialist ("HRS") was limiting competition for job vacancies, was biased towards particular employees, had given applicants application answers, and had engaged in nepotism; (4) Veterans' Preferences had not been properly applied for an employee during the hiring process; (5) an unqualified applicant had been selected for a position; and (6) qualified applicants had not make various certification lists ("certs").

OIG conducted over 24 interviews and performed an extensive record review during the investigation. The investigators reviewed the complainants' applications and resumes for the subject positions, along with all the applications and resumes of applicants that made the certs for those positions. OIG also reviewed additional information regarding the hiring process.

The investigation revealed that the named HRS did act on the application of a close relative for one of the identified postings. The HRS admitted that this was a mistake. The investigation determined HRM management learned of the conflict of interest during the selection process, removed the HRS from working on the posting, and had all of the relevant applications reviewed by two independent FCC employees. Neither of the reviewing employees removed the relative from the cert (agreeing that the relative was minimally qualified for the position); however, the relative was not selected for the position. HRM did counsel the named HRS, as well as others in HRM, on the scope of, and need to comply with, the anti-nepotism laws and rules.

OIG noted that HRM had an open management position during the period in question, that HRM management provided minimal, if any, oversight of HRS work and that HRM staff appeared to be overworked. OIG also noted that HRM did not have a policy manual in place. Other than the nepotism matter, OIG discovered no evidence of wrong-doing by either HRM or CGB personnel. The decisions made by HRM and CGB appeared appropriate and were supported by evidence of record. There was no evidence of pre-selection or wrongdoing on behalf of the managers involved in the hiring process.

OIG noted that the Quick Hire process did not appear to pose problems for applicants attempting to apply for jobs. Moreover, during the investigation, HRM began adding essay questions to Quick Hire so that candidates must explain, in their own words, how they meet the specialized experience required for a posting. OIG found no evidence to indicate that a position that warranted a panel did not use a panel.

Based on the findings of its investigation, OIG recommended to the Office of Managing Director: (1) that HRM develop and distribute a Human Resources Policy Manual and specifically address procedures to avoid conflicts of interest; (2) comprehensive training for all the HRSs regardless of HR background so that the FCC can ensure that all the HRM employees are aware of FCC specific rules and policies; (3) hiring of an additional HRSs to ease workload and help with customer service; (4) implement management review of HRS work in issuing cert lists – and don't allow HRM management positions to go unfilled for such long periods of time (over two years in this case); (5) that the Commission provide Commission-wide training on use of Quick Hire, explain what is does, how it does it, and what is required of applicants; (6) HRM continue to improve the Quick Hire self-assessment process, by among other actions, adding questions to better determine if an applicant meets the specialized experience; (7) that HRM provide oversight on e-mail notifications so that applicants don't have the need to call HRM asking for status updates; and (8) that negotiations between the union and HRM should be finished and finalized.

Investigations into Fraud in the Federal Universal Service Program

The bulk of the work of FCC OIG Investigations involves investigating and supporting the civil and criminal prosecution of fraud in the FCC's federal universal service program. The AIGI and staff work with other state, local and federal agencies in these matters. These joint and coordinated investigation and prosecution efforts, especially those of the DOJ and the FCC and its OIG, have resulted in many successes, including civil settlements and criminal convictions. Most of our on-going universal service investigations are not known to the public and even some closed investigations cannot be disclosed because of sensitivities that could impact related on-going matters, but below we highlight a few matters that had public developments during the reporting period.

Dallas Independent School District Settlement

In June 2009, the Dallas Independent School District ("DISD") agreed to settle claims that the school district violated the False Claims Act in connection with the FCC's universal service program. Under the terms of the settlement, the DISD will relinquish more than $150 million in requests for federal funds, and will pay a total of $750,000.

The United States alleged that the DISD provided false information to the government by engaging in non-competitive bidding practices for universal service program funded contracts. The United States also contended that school district officials improperly received gratuities from technology vendors, including trips, meals, golfing and the free use of a yacht. The school district's former chief technology officer, Ruben Bohuchot, was convicted in July 2008 on bribery charges stemming from the receipt of federal funds under the FCC's universal service program.

Bradley J. Hansen

In June 2009, a Grand Rapids, Michigan, grand jury returned a two-count indictment charging Bradley J. Hansen, a former school superintendent, with engaging in a conspiracy to accept a bribe from a vendor and to deprive his former employer and the citizens of Michigan of his honest services in connection with the FCC's federal universal service program. Hansen was also charged with obstructing justice in relation to the DOJ investigation into potential fraud and competitive bidding violations relating to universal service program funding applications.

Hansen, who served as the superintendent of the Montcalm Area Intermediate School District ("MAISD") from October 1993 to January 1, 2003, was charged with conspiring with the owner of an Internet Service Provider ("ISP") to sign a three-year Internet service contract with the ISP, valued at approximately $1.6 million, in exchange for receipt of $60,000 in free goods and services. The conspiratorial conduct began in 2001 and ran at least until June 14, 2004, affecting needy schools throughout western Michigan. Hansen was also charged with obstructing justice in September 2007 when he was interviewed regarding universal service program fraud in Michigan.

The conspiracy charge carries a maximum penalty of five years in prison and a $250,000 fine. The obstruction of justice charge carries a maximum penalty of 20 years in jail and a $250,000 fine. The maximum fines may be increased to twice the gain derived from the crime or twice the loss suffered by the victims of the crime, if either amount is greater than the statutory maximum fine.

Mary Jo LaDuron

In July 2009, a Kansas woman pleaded guilty to making a false statement to the FBI during an investigation into allegations of fraud involving the FCC's federal universal service program. According to the plea agreement, Mary Jo LaDuron, a/k/a Mary Jo Gault, of Leavenworth, Kansas, lied to FBI agents who were investigating allegations of fraud in the universal service program. Mary Jo LaDuron worked for Elephantine Corporation beginning in 1999 through at least November 2003. Elephantine was formed and owned by Mary Jo LaDuron's son, Leonard Douglas LaDuron. Mary Jo LaDuron lied to FBI agents on March 23, 2006, when she denied knowing certain information about Elephantine. Mary Jo LaDuron's false statement charge carries a maximum penalty of five years in prison and a $250,000 fine.

On April 24, 2008, Mary Jo LaDuron was indicted for participating in a conspiracy to defraud the FCC's federal universal service program. Other individuals who were charged in connection with the same conspiracy include Leonard Douglas LaDuron, as well as two co-conspirators, Benjamin Rowner and Jay H. Soled. Leonard Douglas LaDuron, Rowner and Soled have all pleaded guilty to participating in the conspiracy, which began in 1999 and ran at least until 2003. All three individuals are awaiting sentencing. Leonard Douglas LaDuron also pleaded guilty to one count of making a false statement to the Lawrence-Douglas County Housing Authority, which administers the Department of Housing and Urban Authority's Housing Choice Voucher Program in Lawrence, Kansas.

Computer Assets Inc., Abraham Salazar, and Damon Salazar

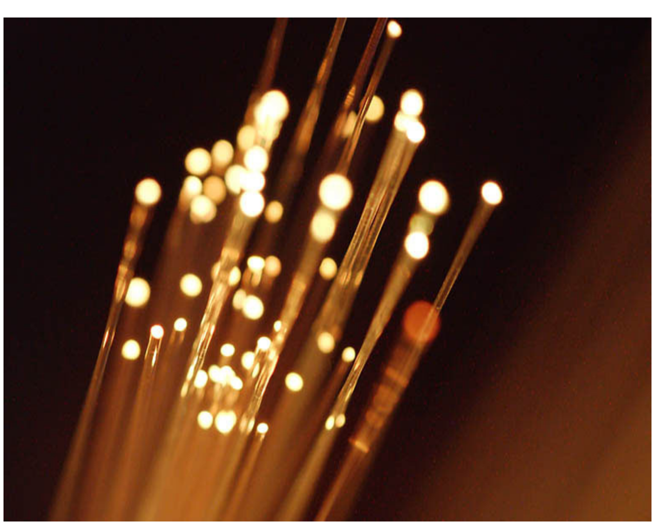
In July 2009, Computer Assets Inc. and its principals, Abraham Salazar and Damon Salazar, agreed to pay $350,000 over three years and surrender up to $35 million in pending funding applications to settle allegations that the company violated the False Claims Act in connection with the FCC's federal universal service program.

The United States contended that the company violated FCC program requirements by engaging in non-competitive bidding practices for universal service program funded contracts with the Kayenta Unified School District in Kayenta, Arizona. Additionally, the United States alleged that Computer Assets billed for installing excess and unnecessary networking cable, and in some instances billed twice for the same work.

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) and Hotline@fcc.gov. 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 507 Hotline contacts, with OIG taking action on nine of these. The remaining calls were forwarded to the FCC Consumer Center (260 calls) and the Federal Trade Commission (238 calls).



REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT

REPORTING REQUIREMENTS

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 requirements set forth in Section 5(a) of the Inspector General Act.

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 sections of this report titled "Universal Service Fund Oversight" and "Investigations."

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 sections of this report titled "Universal Service Fund Oversight" and "Investigations."

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

Except as noted above, 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 titled "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.

REPORTING REQUIREMENTS

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 dollar value of questioned costs.

The required statistical table can be found at Table I to this report.

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

The required statistical table can be found at Table II to this report 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.

REPORTING REQUIREMENTS

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.	–	–	–
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.	–	–	–

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.	–	–

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