

The background of the entire page is a close-up, slightly blurred image of the American flag, showing the stars and stripes in shades of blue, red, and white. The flag appears to be waving or draped, creating a sense of movement and texture.

FEDERAL COMMUNICATIONS COMMISSION

**OFFICE OF THE
INSPECTOR GENERAL**

October 1, 2007 - March 31, 2008

Kent R. Nilsson
Inspector General



The Federal Communications Commission
(left to right)

Deborah Taylor Tate, Commissioner; Michael J. Copps,
Commissioner; Kevin J. Martin, Chairman; Jonathan S. Adelstein,
Commissioner; Robert M. McDowell, Commissioner

MEMORANDUM

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: April 30, 2008

**REPLY TO
ATTN OF:** Inspector General

SUBJECT: Semiannual Report

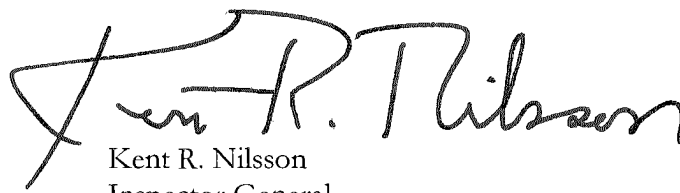
TO: Chairman, Federal Communications Commission

In compliance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. § 5, I have attached my report summarizing the activities and accomplishments of the Office of the Inspector General ("OIG") during the six-month period ending March 31, 2008. In accordance with Section 5(b) of that Act, it would be appreciated if this report, along with the report that you prepare as Chairman of the Federal Communications Commission ("FCC"), were forwarded to the appropriate Congressional oversight committees within thirty days of your receipt of this report.

During this reporting period, OIG activity focused on investigations, audits and Universal Service Fund oversight.

This report describes audits that are in process, as well as those that have been completed during the preceding six months. OIG investigative personnel continued to address issues referred to, or initiated by, this office. Where appropriate, investigative reports have been forwarded to the Commission's management for action.

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



Kent R. Nilsson
Inspector General

Enclosure
cc: Chief of Staff
Managing Director



TABLE OF CONTENTS

INTRODUCTION	3
OIG MANAGEMENT ACTIVITIES	5
Office Staffing	6
Office Modernization	7
Internship Program	8
Legislative and Policy Matters	8
AUDIT ACTIVITIES	11
Financial Audits	12
Performance Audits	15
Universal Service Fund (USF) Oversight	17
INVESTIGATIONS	25
Activity During this Period	27
Significant Investigation Case Summaries	28
OIG Hotline	41
REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT	45
Section 5(a)	46
OIG Reports with Questioned Costs	48
OIG Reports with Recommendations that Funds Be Put To Better Use	48

INTRODUCTION

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

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

The Office of the Inspector General (“OIG”) en-

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

This semiannual report includes the major accomplishments and activities of the OIG from October 31, 2007 through March 31, 2008, as well as information on the IG’s goals and future plans.

Did you know?

Our investigations
have been increasing
at a rate of over 35%
per year.



OIG MANAGEMENT ACTIVITIES

OFFICE STAFFING

OFFICE MODERNIZATION

INTERNSHIP PROGRAM

LEGISLATIVE & POLICY MATTERS

OIG MANAGEMENT ACTIVITIES

OFFICE STAFFING

Additional personnel, as well as funding to support the work of the Office, are essential to meeting the objectives of the Inspector General Act and fulfilling the responsibilities of the Inspector General that are contained in section 0.13 of the Commission's rules. So far, it has been possible to make progress because of the willingness of the Chairman and his staff to support the work of this Office. When the IG was appointed in January 2006, the Office had 10 professional employees. There are now 22 professionals and 3 support personnel. With each addition, the professional training, experience and personal commitment to improving the administration of the Commission's programs and eliminating fraud, waste and abuse has increased. Additional personnel, however, are needed to meet the increasing demands that are being placed on this Office as the Commission's programs increase in size and complexity.

In January 2008, the FCC OIG received \$21.48 million dollars from the Universal Service Fund in support of the OIG's Universal Service Program oversight mission. The funds are being obligated to support the hiring of temporary employ-

ees for a period not to exceed four years. These new hires will enhance the FCC OIG's audits and investigations capabilities. These additional resources will also provide the OIG with resources that are essential to performing high risk audits where there are indications of fraud, waste or abuse of Universal Service Program funds. Additional support staff consisting of a mathematical statistician, a budget analyst, a contract specialist and a management specialist will strengthen the OIG's ability to manage an increasing number of audits that, in FY 2008, will total more than 800.

These funds also provide resources for contracting out low income, rural health care and contributor audits. These audits are part of the second round of Improper Payment and Information Act ("IPIA") and attestation audits planned for FY 2008. These two audit programs plus additional audit work in other areas round out the IG's USF audit plan for FY 2008. The results of these audits will be used to calculate the risk of erroneous payment measurements required by the IPIA and, where indicated, form the basis for civil recoveries, fines, forfeitures and criminal prosecutions.

Our staff consists of well-trained, seasoned pro-

OIG MANAGEMENT ACTIVITIES

professionals, most of whom have one or more professional certifications. We support the efforts of our staff to expand their bodies of knowledge and professional recognition, and the Chairman has funded examination preparation for the Certified Public Accountant and Certified Information System Security Professional designations as well as other professional training programs. In our continuing efforts to increase the expertise of our audit and investigative staffs, members of this Office have also attended classes at the Inspector General Criminal Investigative Academy, other federal Inspectors General training programs, master's level classes at colleges and universities, and other training programs. In addition, we have leveraged our expertise in accounting and auditing to revitalize the FCC's professional training for the Commission's Certified Public Accountants, thereby contributing to improving the quality of professional education available to all of the Commission's accountants.

During this period, David Hunt, Assistant Inspector General for Investigations and General Counsel, received the Executive Council on Integrity and Efficiency's Award for Excellence in investigations and the FCC's Gold Medal for outstanding service.

OFFICE MODERNIZATION

We have reported in the past that the Office is being modernized to insure that it will be prepared to manage and process Universal Service Fund ("USF") oversight activity, financial statements and information technology audits of the FCC and its external program segments, financial controls audits of the FCC and its external program segments, and a steadily increasing volume of complex investigations. As noted above, the Commission, the President and Congress have supported incremental funding to improve the OIG's Universal Service Fund oversight mission. These funds are providing additional personnel with which to perform this critical mission. The OIG is also purchasing state of the art software and hardware to assist auditors and investigators in accomplishing this mission.

Funding is in place for a knowledge management system. The requirements document is under development. This new system will increase the OIG's ability to manage audits, investigation case files, documents, reporting data and project tracking activities thereby facilitating the management of hundreds of audits and investigations. In FY 2007, Universal Service Fund oversight required that the IG



OIG MANAGEMENT ACTIVITIES

direct the Universal Service Administration Company (“USAC”) to perform 459 USF beneficiary and contributor audits. This year, the IPIA formula and other considerations dictated that the number of audits increase to more than 800. The OIG knowledge management system will expand the IG’s ability to manage audits, store and retrieve documents and working papers, manage investigation casefiles, collect data, and provide an overview of audit and investigation status and project milestones.

INTERNSHIP PROGRAM

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

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

LEGISLATIVE & POLICY MATTERS

Pursuant to section 4(a)(2) of the Inspector General Act of 1978 (IG Act), 5 U.S.C.A. App. § 4(a)(2) as amended, our Office monitors and reviews existing and proposed legislation and regulatory proposals for their potential impact on the OIG and the FCC’s programs and operations. Specifically, we perform this review to evaluate the proposals’ 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. The Office also monitored legislation and legislatively related pro-

OIG MANAGEMENT ACTIVITIES

posals that may, directly or indirectly, affect the ability of IGs to function independently and objectively. Specifically, we reviewed proposed legislation that could have affected our functions in the FY 2008 Consolidated Appropriations Act, the National Defense Authorization Act for FY 2008, Pub.L. 110-181 (2008) (FY 2008 Consolidated Appropriations Act) and the Improper Payments

Elimination and Recovery Act of 2008, S. 2583, 110th Cong. (2008). We make no recommendations concerning these legislative initiatives and proposals in this report. In addition to legislation, the OIG continuously monitors FCC policy development and provides input as appropriate.



**FCC Headquarters Building
Portals II Building**

Did you know?

In 2007, the USF provided \$7 billion to assist schools and libraries, rural health care providers, low income consumers and rural or remote telecommunications providers.



AUDIT ACTIVITIES

FINANCIAL AUDITS

PERFORMANCE AUDITS

UNIVERSAL SERVICE FUND OVERSIGHT

AUDIT ACTIVITIES

FINANCIAL AUDITS

Financial statement audits provide 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 2007 Consolidated Financial Statements

In accordance with the Accountability of Tax Dollars Act of 2002, the FCC prepared consolidated financial statements for the 2007 fiscal year in accordance with Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements. The Chief Financial Officers Act of 1990 (CFO Act), as amended, requires the FCC IG, or an independent external auditor selected by the Inspector General, to audit FCC financial statements in accordance with government auditing standards issued by the Comptroller General of the United States. Under a contract supervised

by the Inspector General, Clifton Gunderson, LLP (CG-LLP), an independent certified public accounting firm, performed the audit of the FCC's FY 2007 consolidated financial statements in accordance with the aforesaid standards; OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statement, amended; and applicable sections of the U.S. Government Accountability Office (GAO)/President's Council on Integrity & Efficiency (PCIE) Financial Audit Manual.

CG-LLP issued its financial audit report to the Commission's management on November 13, 2007. The audit report included an unqualified opinion on the financial statements, a report on internal controls and a report on the Commission's compliance with selected laws and regulations. Commission management agreed with the findings and recommendations contained in those reports. The highlights of each report are summarized below.

Independent Auditor's Report on Internal Controls over Financial Reporting

AUDIT ACTIVITIES

FINANCIAL AUDITS

In performing its testing of internal controls necessary to achieve the objectives in OMB Bulletin No. 07-04, CG-LLP identified significant deficiencies in the design or operation of the FCC's internal controls that, in its judgment, could adversely affect the FCC's ability to record, process, summarize, and report financial data consistent with the assertions by management in its financial statements. These matters were categorized as significant internal control deficiencies. The American Institute of Certified Public Accountants defines "significant deficiency" as a control deficiency or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles to such an extent that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. CG-LLP did not consider any of the significant deficiencies to be material weaknesses. A "material weakness" is a significant deficiency that results in more than a remote likelihood that a material misstatement of

the financial statements will not be prevented or detected by the entity's internal controls. CG-LLP identified significant deficiencies that need to be remedied by:

- Improving financial reporting at the FCC entity level and at the FCC component level;
- Fully implementing the requirements of the Debt Collection Improvement Act; and
- Complying with OMB Circular No. A-130, Requirement for a Comprehensive Security Plan.

Independent Auditor's Report on Compliance with Laws and Other Matters

Commission management is responsible for complying with laws and regulations applicable to the FCC. To obtain reasonable assurance as to whether the Commission's financial statements are free of material misstatements, Clifton Gunderson, LLP performed tests of compliance with provisions of applicable laws and regulations to ascertain if noncompliance existed that could have a direct and material effect on the determination

AUDIT ACTIVITIES

FINANCIAL AUDITS

of financial statement amounts, as well as certain other laws and regulations specified in OMB Bulletin No. 07-04. Clifton Gunderson, LLP limited its tests of compliance to these provisions and did not test compliance with all laws and regulations that are applicable to the FCC.

Clifton Gunderson, LLP's tests disclosed the following cases of noncompliance with laws and regulations required to be reported under Government Auditing Standards and OMB Bulletin No. 07-04:

- The Federal Managers' Financial Integrity Act of 1982 as outlined in OMB Circular No. A-127, Financial Management Systems; and
- The Debt Collection Improvement Act of 1996.

Report on Special-Purpose Financial Statements and Agreed-Upon Procedures

During this reporting period, we also transmitted a final report covering the Commission's FY 2007 special-purpose financial statements to the Com-

mission's management. Clifton Gunderson, LLP performed the underlying engagements behind that report and we monitored CG-LLP's efforts to ensure compliance with Government Auditing Standards as well as other applicable standards. The FCC earned an unqualified opinion on its special-purpose financial statements. The auditor's report disclosed no material weaknesses in internal controls over the financial reporting process for the statements and no instances of non-compliance. This report was provided to the U.S. Department of Treasury's Financial Management Service and the U.S. Government Accountability Office (GAO) as required by statute.

Management and Performance Challenges

On October 16, 2007, we issued our annual statement to the Chairman summarizing our assessment of the most serious management challenges facing the FCC in FY 2008 and beyond. We identified the Universal Service Fund, the Telecommunications Relay Service Fund, and the need to modernize the FCC's information technology and financial management infrastructures as signifi-

AUDIT ACTIVITIES

FINANCIAL AUDITS

cant management challenges. Management concurred with the challenges that we identified and included our letter and its response in the FCC's Fiscal Year 2007 Performance and Accountability Report, released November 15, 2007.

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

The Chief Financial Officers Act of 1990 (CFO Act), as amended, requires the FCC Inspector General, or an independent external auditor selected by the Inspector General, to audit FCC financial statements in accordance with government auditing standards issued by the Comptroller General of the United States. Under a contract supervised by the Inspector General, Clifton Gunderson LLP, an independent certified public accounting firm, is performing the audit of the FCC's FY 2008 consolidated financial statements that we expect will be performed in accordance with the aforesaid standards; OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statement, 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 in progress.

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

Telecommunications Relay Service

The Telecommunications Relay Service ("TRS") Fund compensates communications service providers for the costs of providing interstate telephone transmission services that enable a person with a hearing, or speech, disability to use such services to communicate with a person without hearing or speech disabilities. Distributions from the fund have grown substantially in recent years and there is always a risk of fraud and improper payments in the absence of effec-

AUDIT ACTIVITIES

PERFORMANCE AUDITS

tive controls and close, and continuing, oversight. During this reporting period, the OIG completed audits of two TRS providers. These audits found several deficiencies in supporting documentation for costs reported and minutes of service provided, as well as in the reporting of inflated costs. The providers did not agree with the results of these audits and audit resolution is in progress. Audits of other TRS providers are also in progress.

Wireless Network Security Review

As part of the Inspector General's on-going assessment and testing of the security of FCC information systems, we issued a report that reviewed management controls over risks arising from wireless network technology that utilized guidelines published by the National Institute of Standards and Technology (NIST). The review identified several control areas (*i.e.*, management, technical and operational) that should be strengthened. FCC management concurred in the results of that review.

Review of Processes for Filing Public

Comments, Consumer Inquiries and Complaints

In providing service to the public, the FCC receives and reviews comments in FCC proceedings and provides informal mediation and resolution of consumer inquiries and complaints. During this reporting period, the OIG continued its work in assessing the effectiveness of management controls over processes for receiving and processing public comments, consumer inquiries, and consumer complaints, particularly in terms of the timeliness of responses to consumers on actions taken to resolve their complaints. This project is on-going.

Fiscal Year 2008 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 Inspector General perform an annual evaluation of his or her agency's infor-

AUDIT ACTIVITIES

UNIVERSAL SERVICE FUND (USF) OVERSIGHT

mation 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 test the effectiveness of security controls for a subset of the Commission's systems and the FCC's privacy management. This project is in progress and should be completed by the end of the next reporting period.

USF Oversight

In the last semiannual report, we noted that the first round of random statistical sampling attest audits, to determine whether USF programs comply with the Commission's rules and regulations, had been completed. In addition, sampling methodologies and attest audit protocols were also constructed in an effort to develop an assessment program consistent with the Improper Payments Information Act of 2002, Public Law No. 107-300 ("IPIA"). In this section, we provide an update on our current oversight activities of the USF program including 650 audits of the Schools and

Libraries and the High Cost Programs. We will also summarize significant investigative activity related to these programs.

Update on OIG Oversight Activities

As a preliminary matter, the Inspector General directed the Universal Service Administrative Corporation ("USAC") to enhance the education of its contract auditors to include training as to how to identify fraud, waste and abuse. The OIG also conducted on-site reviews of the audit field work in its effort to improve the quality of the on-going audits.

As stated in the last semiannual report, the first round of audits field work was completed except for the contributor audits. During this reporting period, all field work was completed and 411 of the 459 audit reports have been finalized. The remaining 48 contributor audit reports are in the final stages of review. Efforts to improve the programs and recover funds are under way. With

AUDIT ACTIVITIES

UNIVERSAL SERVICE FUND (USF) OVERSIGHT

FCC OIG guidance, USAC has identified areas that can improve the USF programs based on these audit results. The first round of USF audits estimated statistically that potential improper payments amounted to approximately \$1.293 billion. The USF funds specifically identified for recovery in the first round of audits is \$6,170,410, as specified in the following table.

Beneficiary	Program	Location	Potential Improper Payment
Sioux Valley Canby Campus	Rural Health Care	MN	\$619
Sterling Regional Medical Center	Rural Health Care	CO	\$2,032
Ninilchik Community Clinic	Rural Health Care	AK	\$1,165
Cincinnati City School District	Schools and Libraries	OH	\$676
Cobb County School District	Schools and Libraries	GA	\$14,447
Fort Hancock Independent School District	Schools and Libraries	TX	\$2,102
Bibb County Public Schools	Schools and Libraries	GA	\$913
Boyden -Hull Community School District	Schools and Libraries	IA	\$3,410
San Diego City Unified School District	Schools and Libraries	CA	\$6,103
Highland School District	Schools and Libraries	WA	\$838
Fairfax Elementary School District	Schools and Libraries	VA	\$5,676
Belen Consolidated Day School	Schools and Libraries	NM	\$501,710
District of Columbia Public Schools	Schools and Libraries	DC	\$45,312
Columbus Public Schools	Schools and Libraries	OH	\$278,871
De Kalb County School District	Schools and Libraries	GA	\$2,315
Georgia Board of Regents	Schools and Libraries	GA	\$18,123
Aldine Independent School District	Schools and Libraries	TX	\$2,299,353
New York City Board of Education	Schools and Libraries	NY	\$701,646
Municipal Telephone Exchange	Schools and Libraries	MD	\$20,086
San Bernardino City Unified School District	Schools and Libraries	CA	\$20,711
Connecticut Educator's Network	Schools and Libraries	CT	\$122,825
Los Fresnos Consolidated Independent School District	Schools and Libraries	TX	\$263,277

AUDIT ACTIVITIES

UNIVERSAL SERVICE FUND (USF) OVERSIGHT

Beneficiary	Program	Location	Potential Improper Payment
Lummi Tribal School (New Construction)	Schools and Libraries	WA	\$171,400
The Ohio Public Library Information Network	Schools and Libraries	OH	\$8,424
Washington Unified School District	Schools and Libraries	CA	\$197,992
eiNetwork	Schools and Libraries	PA	\$621
Paterson School District	Schools and Libraries	NJ	\$77,018
San Benito Consolidated Independent School District	Schools and Libraries	TX	\$316,951
Santa Clara Day School	Schools and Libraries	NM	\$102,067
Springfield School District 186	Schools and Libraries	IL	\$21,164
Wake County North Carolina Public School System	Schools and Libraries	NC	\$10,755
Wolf Creek Elementary School	Schools and Libraries	SD	\$123,657
California Youth Authority California Education Authority	Schools and Libraries	CA	\$1,692
Diocese of Sioux Falls	Schools and Libraries	SD	\$14,720
Grainger County School District	Schools and Libraries	TN	\$4,756
Guntersville City School District	Schools and Libraries	AL	\$5,115
Jefferson County Public Schools	Schools and Libraries	KY	\$11,209
Lincoln Henricks Ivanhoe Elementary School	Schools and Libraries	MN	\$1,906
Merced City Elementary School District	Schools and Libraries	CA	\$9,573
Monterey County Office of Education	Schools and Libraries	CA	\$10,198
Tina Avalon School District R2	Schools and Libraries	Mo	\$11,876
Amery Telecom, Inc.	Low Income	WI	\$772
Central Telephone. Company – NC	Low Income	NC	\$431
Central Telephone Company - Nevada	Low Income	NV	\$2,215
Sage Telecom Of Texas, L.P.	Low Income	TX	\$2,520

AUDIT ACTIVITIES

UNIVERSAL SERVICE FUND (USF) OVERSIGHT

Beneficiary	Program	Location	Potential Improper Payment
Taconic Telephone Corporation	Low Income	NY	\$316
United Utilities Inc.	Low Income	AK	\$616
Vivian Telephone Company	Low Income	SD	\$1,785
Dobson Telephone Company	Low Income	OK	\$1,142
CenturyTel Of Arkansas, Inc.	Low Income	AR	\$694
CenturyTel Of Washington, Inc.	Low Income	WA	\$8,168
Indiana Bell Telephone Company	Low Income	IN	\$341
Northwest Iowa Telephone Company, Inc.	Low Income	IA	\$428
Pacific Bell	Low Income	CA	\$552,513
Southwestern Bell-Kansas	Low Income	KS	\$436
Southwestern Bell-Oklahoma	Low Income	OK	\$404
Verizon California Inc. - CA (GTE)	Low Income	CA	\$795
Verizon New York Inc.	Low Income	NY	\$25,297
Western Wireless Corporation dba WWC License LLC	Low Income	ND	\$79,634
Mt. Vernon Telephone Company	High Cost	WI	\$980
West Iowa Telephone Company	High Cost	IA	\$1,800
Pigeon Telephone Company	High Cost	MI	\$1,862
Noxapater Telephone Company	High Cost	MS	\$12,700
Ogden Telephone dba Frnter	High Cost	NY	\$6,200
ACS Wireless	High Cost	AK	\$14,245
Hopper Telecom Company	High Cost	AL	\$36,900
Chequamegon Telecommunications Company	High Cost	WI	\$3,912
Total			\$6,170,410

The OIG's initial statistical analysis, presented in the last semiannual report, showed that, although the audits indicated general compliance with the Commission's rules, erroneous payment rates ex-

ceeded 9% in most USF program segments. That initial assessment provided the following erroneous payments rates and estimated erroneous payments: Low Income, a 9.5% error rate (estimated

AUDIT ACTIVITIES

UNIVERSAL SERVICE FUND (USF) OVERSIGHT

erroneous payments of \$75.5 million); Schools and Libraries, a 12.9% error rate (estimated erroneous payments of \$210 million); High Cost Fund, a 16.6% error rate (estimated erroneous payments of \$618 million); Rural Health Care, a 20.6% error rate (estimated erroneous payments of \$4.4 million); and USF contributors, a 5.5% error rate (estimated erroneous contributions of \$385 million). Under the Improper Payments Information Act ("IPIA"), a program is at risk if the erroneous payment rate exceeds 2.5% and the total amount of erroneous payment is greater than \$10 million. Under these criteria, the High Cost Program, the Schools and Libraries Program, and the Low Income Program were found to be at risk.

Due to the Schools and Libraries and High Cost Programs exceeding the IPIA threshold and the potential amount of improper payments that were estimated, another statistical sample of the USF participants was required. Using stratified sampling, the erroneous payment rates from the first round of audits, and the formula specified by the IPIA resulted in samples of 260 Schools and Libraries audits and 390 High Cost audits for the second round of audits. These audits are being

performed by 12 public accounting firms under contract with USAC and under the guidance of the OIG. For this round of audits, the Inspector General directed USAC to provide more specific auditor training as well as additional training on detecting fraud, waste and abuse. These audits began in January, 2008 and fieldwork is expected to be completed in June, 2008. To date, OIG staff has visited 16 Schools and Libraries' audit field sites and 19 High Cost's audit field sites in an effort to fulfill its oversight responsibilities.

OIG also initiated action to assess the Low Cost Program error rates during 2008 to address IPIA reporting standards. A statistical analysis was prepared by the OIG to determine the number of audits needed for a statistically valid IPIA assessment. A request for procurement was prepared to contract for the services of auditing firms to perform these audits. These audits are expected to begin during June 2008.

We expect that the statistical analyses resulting from these audits will improve the application of investigative and audit resources and yield information that will enable the Commission to im-



AUDIT ACTIVITIES

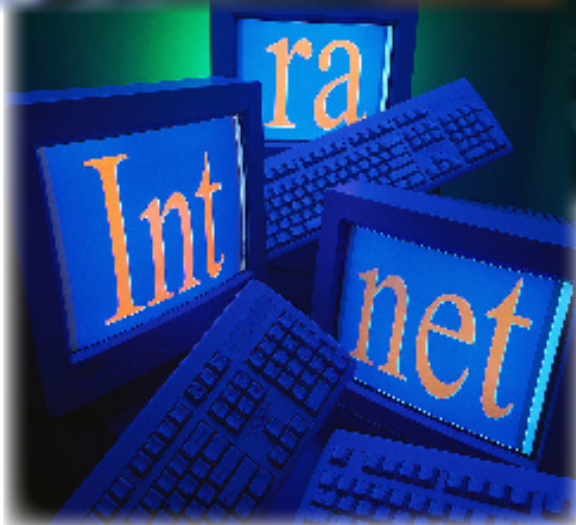
UNIVERSAL SERVICE FUND (USF) OVERSIGHT

prove the administration of these programs to further reduce fraud, waste and abuse in addition to deterring fraud, waste and abuse in those programs.

Support to Investigations

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

The Antitrust Division, in turn, has established a task force to conduct USF investigations that is comprised of attorneys in each of the Antitrust Division’s seven field offices and the National Criminal Office. As of the end of this reporting period, we are directly supporting 30 investigations and monitoring an additional 6 investigations. Recent assessments, resulting from additional USF audits, suggest that the volume of work in this area will intensify over time. As noted in the Management Activities section of this report, we are in the process of increasing staffing resources to address these USF challenges. Please refer to the Investigations section of this report for further information.



*Did you
know?*

*The FCC Consumer
Call Center handled
128,000 calls in FY
2007.*



INVESTIGATIONS

ACTIVITY DURING THIS PERIOD

SIGNIFICANT INVESTIGATIVE CASE
SUMMARIES

OIG HOTLINE





INVESTIGATIONS

Investigations are initiated as a result of allegations from a variety of sources. Examples include FCC managers and employees who contact the OIG directly, complaints provided through the OIG hotline, and complaints received through the U.S. Postal Service. Allegations can be, and frequently are, made anonymously. Investigations may also be predicated on audit or inspection findings of fraud, waste, abuse, corruption, or mismanagement in FCC programs or operational segments, by FCC employees, contractors, and/or subcontractors, and through referrals from other governmental agencies.

The OIG works directly with federal criminal authorities, either in supporting their investigations or in having those authorities support this office with resources not available within the FCC. Upon receiving an allegation of an administrative, civil, or criminal violation, the OIG conducts a preliminary inquiry to determine if an investigation, audit or inspection is warranted. Investigations may involve violations of federal regulations concerning employee responsibilities and conduct, federal criminal or civil law, and other regulations and statutes pertaining to the activities of the Commission

and its regulatees. Investigative findings may lead to criminal or civil prosecution, or administrative action, or all of the foregoing.

The OIG also receives complaints from the general public and Commission employees about the manner in which the FCC executes its programs, how the FCC handles its operations administratively, and how the FCC conducts its oversight responsibilities. All complaints are examined to determine whether a reasonable basis exists for initiating an audit, inspection or investigation. If the allegations are not within the jurisdiction of the Inspector General, the complaint, is referred to the appropriate FCC bureau or office or other federal government entity for response directly to the complainant. The OIG usually continues to serve as a facilitator with respect to responses to complaints that are outside the jurisdiction of this office. Finally, matters may be referred to this office for investigative action from other governmental entities, such as the Government Accountability Office, the Office of Special Counsel, and various congressional and senatorial offices.

As discussed in previous semiannual reports, this office continues to initiate, and participate in, complex cyber crime investigations. These

INVESTIGATIONS

investigations have required substantially more investigative resources because of the complex nature of the investigations, the need for higher-grade forensic tools, and the need for personnel with the concomitant expertise to use those tools. This office also handles an increasing number of investigations resulting from the significant growth in USF audits.

In addition to the foregoing, the OIG continues to coordinate and provide assistance to federal civil and criminal enforcement authorities, as well as to state and local authorities, with respect to investigations pertaining to fraud on the Commission's Universal Service Fund program as well as other types of fraud perpetrated upon the federal government. These efforts have led to successful indictments and prosecutions for criminal conduct pertaining to the USF Fund.

In this semi-annual report, we describe in detail two significant investigations that were completed during the period covered by this report. The first summary covers an investigation regarding allegations of inappropriate conduct by individuals at the FCC, past and present, concerning the possible destruction and/or suppression of draft studies or reports regarding localism and media

ownership. This was the largest investigation ever conducted by the OIG. The second summary addresses the largest E-Rate trial to date, resulting in the conviction and sentencing of Judy Green, a former sales representative and school consultant, for her role in schemes to defraud the federal E-Rate program.

Activity During This Period

At the outset of this reporting period, sixty-seven (67) cases were pending. Thirty-three (33) of those cases involve the Commission's Universal Service Fund (USF) program and have been referred to the U.S. Department of Justice, or its investigative branch, the Federal Bureau of Investigation (FBI). An additional twelve (12) non-USF and five (5) USF related complaints were received during the current reporting period. Over the last six months, four (4) cases, two (2) USF and two (2) non-USF related, have been closed. As a consequence, a total of eighty (80) cases are pending, of which thirty-six (36) relate to the USF program. The OIG continues to monitor, coordinate and/or support activities regarding those thirty-six (36) investigations. The investigations pertaining to the pending forty-four (44) non-USF cases are ongoing.

INVESTIGATIONS

<i>Statistics</i>	
Cases Pending as of October 1, 2007	67
New Cases	17
Cases Closed	4
Cases Pending as of March 31, 2008	80

Significant Case Summaries

Report of investigation alleging destruction or suppression of draft FCC reports

During this reporting period, the OIG closed the largest and most publicized investigation undertaken by the FCC OIG, issuing a report of investigation on October 4, 2007, shortly after the last reporting period. More than 150,000 pages of documentation were reviewed and over one terabyte of electronic data was searched in this investigation. In addition, dozens of related Commission reports and orders were reviewed, and the OIG's Senior Forensic Economist reviewed and analyzed more than 60 economic and research documents, including reports, papers, articles, and surveys. In addition, 35 individuals were interviewed, including present and former staff and management, economists and lawyers, among them a former Media Bureau Chief, the current

Chairman's Chief of Staff, staff from the offices of current Commissioners, and former media advisors to Commissioners Adelstein and Copps.

The investigation began in mid-September 2006, when FCC Chairman Kevin Martin first became aware that two draft Media Bureau economic research reports were alleged to have been suppressed at the agency and asked the Commission's Inspector General to investigate the matter. Decisions concerning these two reports would have occurred during the tenure of former Chairman Michael Powell. Shortly thereafter, on September 20, 2006, Senators Boxer, Dorgan and Wyden sent a letter to the Inspector General requesting an investigation of these allegations and additional related matters, including allegations that "senior managers ordered 'every last piece' of [a draft Media Bureau] report destroyed." In light of the allegations, the Inspector General expanded the investigation to include a determination as to whether there had been any violations of United States criminal law or the Commission's rules.

The Senators' and Chairman's concern regarding the draft report entitled "Do Local Owners Deliver More Localism? Some Evidence from Local Broadcast News" ("Local TV News Report")

INVESTIGATIONS

stems from the allegations of now-Associate Professor Adam Candeub of Michigan State University College of Law, who was employed as a staff attorney in the Commission's Media Bureau during part of the relevant period. As stated in the Senators' letter, Mr. Candeub's allegations are that "the report 'was stopped in its tracks because it was not the way the agency wanted to go' and that senior managers ordered 'every last piece' of the report destroyed."¹

Mr. Candeub made similar allegations in many media interviews and the allegations were repeated in various media articles and reports.² A former colleague of Mr. Candeub, who had been an economist in the Media Bureau and is co-author with Mr. Candeub of several articles, Keith Brown, also made similar allegations to the media. These two former FCC staff employees, who

¹ See letter to Kent R. Nilsson, Inspector General, from Senators Barbara Boxer, Byron Dorgan and Ron Wyden, dated September 20, 2006, p.1.

² "[They said that the project was dead and to delete computer records,' [Professor Candeub] told TelevisionWeek." TVWeek, September 14, 2006. "[Professor Candeub] said 'the order did come down from somewhere in the senior management of the media bureau [sic]that this study had to end ... and they wanted all the copies collected.'" Los Angeles Times, September 15, 2006. "Candeub, now a law professor at Michigan State University, said senior managers at the agency ordered that the report be destroyed." Associated Press, September 15, 2006.

alleged in the media that their former supervisors had committed what amounted to criminal acts by ordering reports and data destroyed – and implicitly alleged that their own lower level staff colleagues had also committed these same criminal acts in following those orders - declined all repeated OIG requests to be interviewed in the effort to investigate the basis for their very serious allegations.

OIG staff began trying to arrange for an interview with Associate Professor Candeub almost immediately upon starting the investigation in September 2006. Mr. Candeub initially stated on several occasions to the Assistant Inspector General for Investigations ("AIGI") that he was willing to be interviewed but, after learning the interview would be under oath and transcribed by a court reporter, failed to respond to numerous voice and e-mails from the AIGI and his staff requesting that Mr. Candeub name a date for the interview. Mr. Candeub stated some of his failures to respond were due to failures of the Michigan State University voicemail system, some to his busy teaching schedule; later he stated he needed time to consult with counsel and prepare to be interviewed on the subject of the allegations he made in multiple media interviews. OIG staff continued to make



INVESTIGATIONS

attempts to contact Mr. Candeub and arrange for a convenient interview time. This included having OIG staff research his teaching schedule at Michigan State University College of Law in Detroit to try to determine convenient dates for Mr. Candeub, and repeatedly reminding Mr. Candeub that OIG staff and the court reporter would arrange essentially to be in any place at any time convenient for Associate Professor Candeub. On November 1, 2006, Mr. Candeub stated in a voice-mail to OIG staff that he had decided he would decline to be interviewed for the investigation because he “[did] not think [he] could add much to the issues [he] believe[d] the investigation was required to pursue” – an investigation into the allegations Mr. Candeub repeatedly made in public but now would not discuss with the federal investigators seeking to substantiate Mr. Candeub’s claims of potentially criminal acts and misconduct by his former government colleagues and supervisors with whom he had clashed on many occasions.

The Inspector General cannot compel testimony of non-government employees and at first OIG was concerned that its inability to interview Mr. Candeub would limit its ability to completely investigate his allegations of criminal behavior by

FCC staff with whom he had worked and been supervised. As discussed in more detail in the report, the extent and thoroughness of the OIG investigation on these matters, and the lack of evidence corroborating Associate Professor Candeub’s allegations give us comfort that we have been able to investigate these matters thoroughly and that our findings and conclusions, that there was no merit to Associate Professor Candeub’s allegations, rest on solid grounds.

We similarly repeatedly sought to interview Mr. Brown, the economist colleague and co-author with Mr. Candeub, who made allegations in the press similar to Mr. Candeub of what amounted to criminal misconduct by former colleagues and supervisors. Mr. Brown also refused to be interviewed by OIG in the investigation. OIG staff contacted Mr. Brown more than eight times. One investigator spoke directly to Mr. Brown on the telephone four times; throughout the process the investigator left multiple unreturned voicemails. The AIGI tried to assist and left Mr. Brown three voicemails that also were not returned. Mr. Brown stated that he did not trust “the IG process.” To assuage his concern, the investigator noted that the OIG had contracted with a court reporting service and would have this independent entity

INVESTIGATIONS

record the interview and produce a written transcript which he could review for accuracy. Mr. Brown replied that his concerns were increased with having an actual transcript of his interview. When the OIG then offered to have a more informal interview recorded only on tape and without a formal transcript, Mr. Brown still expressed doubt that he would agree to be interviewed. Finally, Mr. Brown told the investigator that he would not agree to be interviewed at all. As noted above, and discussed in the report, we became comfortable that we had been able to investigate these matters adequately, and that our findings and conclusions rest on solid grounds, despite the repeated refusals of Mr. Candeub and Mr. Brown to be interviewed regarding their knowledge of the criminal acts and misconduct in which they alleged their former supervisors and colleagues engaged.

We have been criticized, most prominently by Senator Barbara Boxer and FCC Commissioner Michael Copps, for not interviewing sufficient “high-level” persons, including criticism of the facts that we did not interview each sitting Commissioner and their staffs or former Chairman Michael Powell and his former staff members. We did not interview the sitting Commission-

ers, former Chairman Powell or Chairman Powell’s former staffers because the investigators found no leads, much less evidence, suggesting that any of these individuals were involved in the matters being investigated or might have information relevant to this investigation. Thus, we did not have any reasoned, good-faith basis on which to ask these persons to undertake the burdens of time, energy, and perhaps expense required by being interviewed in an OIG investigation. The Inspector General specifically questioned the investigators on why they decided not to interview former Chairman Powell or his staff despite expecting to do so in the early stages of the investigation. The investigators then noted the information above and their view that, even if OIG had the authority to compel testimony, such potential interviewees could have likely gotten a court to quash any subpoena based on the fact that staff could not articulate any good-faith basis on which to request such interviews. Although OIG did not necessarily anticipate resistance to being interviewed on the part of these individuals, the lack of investigative support for seeking their testimony decided the matter.

In the investigation, OIG personnel interviewed the current Chairman’s Chief of Staff, staff from the offices of current Commissioners, and former advi-

INVESTIGATIONS

sors to Commissioners Adelstein and Copps (who were employed by the Commission at the time of the alleged acts) and specifically asked each one to identify other persons, within or outside the FCC, that OIG might want to interview to gain information, even to the level of mere leads and hearsay, not evidence, which greatly expanded the universe of potential OIG deponents. None of these, including the advisors to Commissioners Copps and Adelstein, suggested OIG staff should interview either the Commissioner for whom the advisor served or any other Commissioner. In addition, Commissioner Copps' office requested and received a briefing on the report immediately prior to its issuance. At that briefing, Commissioner Copps' staff did not indicate that the Commissioner or his staff had any relevant information that had not been provided to the OIG and would be necessary for a full understanding of the situation.

In retrospect, requiring the sitting Commissioners to submit to interviews and requesting that former Chairman Powell and some of his staff agree to be interviewed might have prevented certain criticisms of this investigation. We remain convinced, however, that the OIG did not have a basis on which to demand or request such interviews

and to have done so would have been to abuse the powers of the office for the sole purpose of shielding the OIG from potential criticism.

As discussed in the report, despite its extensive scope, OIG's investigation did not substantiate the serious allegations leveled by Mr. Candeub and Mr. Brown. As a preliminary and factual matter, every piece of the Local TV News Report was not destroyed. Multiple copies of multiple versions of the report were produced immediately, both in our investigation and pursuant to a Freedom of Information Act request for which it was a responsive document. Pursuant to the investigation, OIG interviewed, among others, Mr. Brown's co-author of the Local TV News Report, Commission staff and management known to have copies of the report, the former Chief, Deputy Bureau Chief, and other members of the Media Bureau's front office at the time in question. Every person, including Mr. Brown's co-author of the report, stated that he or she had neither received nor given an order to destroy the Local TV News Report or any other document.

Because of the seriousness of the allegations, we asked every person interviewed in the investigation, even those who were not involved with the

INVESTIGATIONS

Local TV News Report, whether they had ever given or received an order to destroy any document outside of the agency's standard record retention and destruction policy directions or if they had ever heard even a rumor of such. With the exception of Mr. Candeub's allegations, which some interviewees remembered reading or hearing about in media reports, no one we interviewed was aware of even a rumor of such conduct at the Commission. The evidence supported only one conclusion: that the allegations leveled by the two accusers were false and that no order to destroy the Local TV News Report was given by senior managers or anyone else at the Commission.

Mr. Candeub and Mr. Brown also alleged that the Local TV News Report was suppressed because senior agency management disliked the factual findings of the report. As discussed in more detail in our report, the weight of the evidence indicated the most probable explanation was that the report was not released because the senior economists responsible for reviewing and approving the report did not determine that, despite its flaws, it had been revised sufficiently to be considered for public release without further correction, and not because of agency management's like or dislike of its results.

Subsequent to our investigation and the briefing to his office, Commissioner Copps criticized the OIG in the press for not explaining "why a study that reached striking and exceedingly relevant conclusions wasn't finalized and made a part of the record, even though supervising economists concluded that the technical flaws could be easily fixed." The striking nature of those conclusions was one of the flaws found by the reviewing economists. The striking conclusions claimed were not found to be supported by the research data by the reviewing economists at the time, or on later review by OIG's Senior Forensic Economist in our investigation. The reviewing economists and OIG's Senior Forensic Economist's professional views were that only more modest conclusions could be supported by the data, and the report required greater detailing of the limitations of the data.

The reviewing economists appeared to have thought revisions could eventually result in a professional paper of some use, again a view shared by the OIG Senior Forensic Economist, but the two staff authors were not willing to make all required changes. The study was based on an independent view of those two staff economists and was not a project directed or

INVESTIGATIONS

required by FCC Media Bureau management. The reviewing economists and managers did not view the potential of a revised paper to be so useful or necessary that management should insist the work be taken over by other staff economists and the intellectual property rights issues pursued to produce a published paper. OIG's Senior Forensic Economist found that to be a reasonable conclusion.

Based on the information gathered in our investigation, and on the OIG's Senior Forensic Economist's analysis of the various versions of the Local TV News Report and its criticisms, OIG believes that the reviewing economists' concerns with quality of the draft Local TV News Report were sincerely held, rationally based, and not pretexts to suppress it. OIG suspects that the tensions between staff and management, and between and among staff and senior economists, may have exacerbated a difficult situation, but that this tension was not caused by or related to any effort to suppress the Local TV News Report because of agency management dislike of the results.

The investigation also addressed questions that had arisen regarding the decision not to release

a Media Bureau draft report entitled "Review of the Radio Industry, 2003" ("Draft 2003 Radio Report"). This matter was in some ways simpler than the question of the Local TV News Report and in some ways presents more troubling aspects. There is no dispute that a fairly complete draft was prepared by Media Bureau staff and presented to its front office. There is also no dispute that the then-Media Bureau Chief decided the report would not be revised into a final version to be submitted to Chairman Powell's office for expected release, and that the Media Bureau would not work on another update of the report in the immediate future, at least not until media ownership issues were before the Commission again.³ OIG notes, however, that a decision not to release a document does not by itself establish that the document was "suppressed." Decisions to revise, change, release, or not release documents are common and expected in government agencies and the role of agency management includes making such decisions. Although agency management (and staff) cannot conceal documents

³ The expectation at that time would have been the next quadrennial regulatory review proceeding in which media ownership rules would be addressed. Previously the Commission had reviewed these matters on a biennial basis, but in January 2004, Congress amended section 202(h) of the Telecommunications Act of 1996 to provide for a quadrennial rather than a biennial review. Appropriations Act 2004, Pub. L. No. 108-199, Div. B, § 629, 118 Stat. 3, 99 (2004).

INVESTIGATIONS

or information, there can be valid reasons for decisions not to release a document or information even when the information is not privileged or otherwise to be protected from disclosure. We look to the context of the decision-making and the reasons, expressed and observed, for the decision not to release to determine whether the decision and related actions were reasonable and consistent with agency management's obligations to the agency and the citizens it serves, or whether the decision was arbitrary and capricious or, in the worst case, an act to conceal information.

OIG determined that there also appeared to be no dispute that the economic work product in the Draft 2003 Radio Report was competent and did not raise the types of issues seen with the Local TV News Report. The Draft 2003 Radio Report followed the pattern set by the prior three released reports and used standard economic methodologies and publicly available data, as had the prior reports. The results of the Draft 2003 Radio Report also appear to be expected and uncontroversial: the pattern of consolidation in radio ownership since the Telecommunications Act of 1996 was continuing, although with the same minor flattening effect seen in past reports.

The Draft 2003 Radio Report was presented to the Media Bureau front office for review in late December 2003. Minor criticisms from a reviewer in the Media Bureau front office were received. Some changes could have been addressed through minor edits and some appeared to be the result of unfamiliarity with the series of reports and could have been addressed through discussion. OIG has also been criticized because it did not interview that reviewer, who had retired from the FCC shortly after the investigation started and who indicated he was willing, if not eager, to be interviewed in his retirement. Further investigation revealed that these criticisms played no role in the decision at issue and thus the OIG did not seek such an interview. Revisions based on that reviewer's concerns were not made or addressed with him because the Media Bureau Chief decided the report should not go further towards release. In an electronic mail message, the then-Chief stated that he:

[was] not inclined to release this one unless the story can be told in a much more positive way. This is not the time to be stirring the "radio consolidation" pot. ... [Given that the reports in the series had



INVESTIGATIONS

been issued at uneven intervals in the past] It would hardly seem odd if we did not release one this year ... particularly given that we just did a big radio order as part of the biennial ... All in all this is a really bad time to release something like this. If we can change the focus and make it more positive ... then perhaps we can do something like this again, but this will take more than just regurgitating last year's report with new numbers.

Based on the evidence collected in the investigation, OIG believes the decision not to go forward with the release process for the Draft 2003 Radio Report was not an attempt to conceal information. The record supports the OIG's view that the decision was a reasoned decision based on valid agency management considerations, consistent with expressed and observed directions of the Media Bureau Chief on similar matters.

The OIG acknowledges that this is an area on which reasonable minds could differ and a different FCC manager could have made a legitimate decision to continue the release process for the Draft 2003 Radio Report. This does not affect our view that the actual decision of the

Media Bureau Chief was not improper. Senator Boxer has argued that we did not address whether the decision was based solely on political reasons, rather than whether it simply violated a law. In fact, as detailed in our report and briefly discussed here, we did so. We found the then-Bureau Chief considered reasonable factors, including agency efficiency, as well as framing and timing the addressing of policy issues not specifically before the Commission (which we agree is of a political nature). We also noted that there are certain factors relating to government work product that could have been more carefully weighed, such as the Senators' concern that work done at taxpayer expense was not made directly available to the public. We did and could not conclude, however, that additional consideration of such factors would require a different decision, and did and could not conclude that the decision was therefore improper.

As discussed in our report, it was the aftermath of the decision not to move the Draft 2003 Radio Report to release that presented more troubling issues. Media Bureau staff had noted to the Bureau Chief that the report had been released on a repeated, if irregular, basis, and that there were often sporadic requests for it or inquiries as to when a new version would be released. It is clear that the then-Bureau

INVESTIGATIONS

Chief directed that responses to inquiries for future versions would be that the Media Bureau did not have time and resources to produce annual updating of the report. It is more unclear as to the directions regarding responses to inquiries that would implicate the unreleased Draft 2003 Radio Report.

Several members of the Media Bureau did not remember receiving any instructions on responding to inquiries on the Draft 2003 Radio Report. One of these individuals responded to an inquiry about a 2003 version from within the Media Bureau itself that “[w]e didn’t do one in 2003” and went on to identify the most recent released reports and offered to arrange for copies of such. Another remembered receiving a direct inquiry for the 2003 report from a Commissioner’s office and responding that there had been a decision not to release the draft. One member of the Media Bureau remembers having been told that the Bureau Chief directed that they say the Bureau did not have the time to do a 2003 report because of the press of other work; that person thought thus the instruction basically was to lie, but did not have any recollection of receiving or responding to any inquiries. The Media Bureau Chief did not remember giving out directions on responding to inquiries for the 2003 version or having any conversation about the topic at all.

We were, and are, troubled by the possibility that there could have been, at the very least, an effort to distract attention from asking for the Draft 2003 Radio Report and, at the worst, an attempt to conceal the existence of the draft report. The evidence in this matter, however, is sometimes contradictory, often ambiguous, and generally rests on recollections far after the events in question. We did and do not believe that the evidence is strong enough to establish with reasonable certainty that any improper or illegal acts to conceal the Draft 2003 Radio Report took place, and therefore we could not in good faith refer this matter to another authority for prosecution. Although purely speculative, were the then-Media Bureau Chief still in place, OIG very likely would have referred the matter to Chairman Powell for administrative consideration to address, at a minimum, preventive measures to insure clarity in the future for similar situations where requests are made for unreleased reports and what responses should or can be given. Because different management was in place and OIG did not receive reports of similar situations during the extensive investigation, it was not necessary to refer this matter.

The Senators also asked us to determine if there



INVESTIGATIONS

were any similar materials related to media ownership or localism that was not released to the public and, if so, to examine the surrounding circumstances. The Senators were concerned specifically with the long delay with several contract-based research projects entered into for the FCC's Localism Task Force ("LTF") which had not then resulted in publicly released material. The implicit suspicion was that the delays might be intentional efforts to conceal the relevant material from the public because it is disfavored by agency management. As noted above, we conducted an extensive and wide-ranging investigation including interviews and document review relating to this issue. We found no evidence that the delays with respect to these contract-based research projects were intentional efforts to delay the public release of information. We also found no evidence that additional materials that were not released to the public were withheld based on improper motives.

OIG found the major contract-based LTF research project had not had an efficiently managed history, but we did not find any evidence that the delays were due to intentional efforts to delay or sabotage the project, or prevent the final unique database from becoming available to

the public. Although, the project clearly seems not to have moved smoothly or quickly to its end, we found no evidence of suppression and the evidence we did find indicates that Commission personnel worked diligently and in good faith to address and resolve problems within a difficult situation. Similarly, we did not find anything that appears to have been intentional efforts to delay or suppress any of the additional projects in order to prevent disfavored results from being released. We note that contractual and quality issues with respect to the project were ultimately resolved in late August 2007 with the FCC receiving a reduction in the contract price. It should be noted that project material was utilized in other media research and a database containing that material was released to the public with the related research papers on July 31, 2007.

The Senators also asked us to examine whether it is or has been "the practice of any commission or senior FCC management to suppress facts, analysis, or other materials that is contrary to a result desired by that person." In order to address this very broad question, we asked every person we interviewed on the specific matters described above, including those connected with FCC Commissioners, if they knew of any other matters similar to the one(s) we discussed or if they knew of any situation

INVESTIGATIONS

which they thought might have involved suppression of reports, facts, analysis, or other material. To expand this scope as far as possible, we asked the witnesses to answer as broadly as they could, providing us even with rumor and hearsay and telling us about any situation which might possibly have been related to a suppression scenario, whether current or in the past. Our investigation into the above matters led us to economists and researchers, staff and management, current and former, in the Media Bureau and elsewhere in the Commission. In addition, in an effort to ensure we did not miss leads from other parts of the Commission, we specifically interviewed at least one researcher in each bureau and office that was not represented in our investigations into the above matters, and followed up on all leads provided to us. In the investigation and as discussed in more detail in the report, we followed up on various leads to situations involving possible suppression. OIG found no evidence of a pattern or practice of any commissioner or anyone in the Commission's senior management to suppress reports, facts, analysis, or any other material because it was contrary to a result desired by that person. OIG investigated the leads relating to possible suppressions of reports, facts, analysis or other material and again did not find evidence of such suppression.

The Inspector General directed and supported the largest investigation ever undertaken by the FCC's OIG in this matter. As noted above, more than 150,000 pages of documentation were reviewed, over one terabyte of electronic data was searched, and 35 individuals were interviewed, including the current Chairman's Chief of Staff and former legal advisors to Commissioners Adelstein and Copps. Because of the importance of the issues in this investigation, the OIG report extensively detailed the facts found and OIG's conclusions in its report of investigation, including discussing differing possible interpretations of evidence in explaining OIG's views on such. This most extensive and most publicized OIG investigation and the OIG conclusions have received both praise and criticism in the press and in the community. Specifically, Senator Boxer has stated her view that our report was merely a cover-up, Commissioner Copps has stated in the press that he thinks we did not interview the right people or uncover the whole story, and Commissioner Adelstein has stated that he does not think our conclusions match the evidence we detailed in the report.

In the end, however, it is to the evidence collected that the OIG looks to resolve investiga-

INVESTIGATIONS

tions, and to the investigative techniques used to ferret out the truth. Serious allegations of misconduct were leveled by parties unwilling to support the investigation they, in large part, initiated. In spite of same, this office rigorously investigated the matters to determine the truth without their support, deposing a multitude of people these parties worked with and for, only to discover that the allegations were just that and had little to no evidentiary support. Their most vehement allegations of orders to destroy documents were not supported by anyone: not one of the dozens of individuals interviewed in this investigation. OIG acknowledges, as always, that different minds may come to different conclusions, but the Inspector General remains satisfied with, and proud of, the integrity and thoroughness of the investigation, the transparency of the related report of the investigation, and the reasoned conclusions of the report and his staff.

Judy Green E-rate Case

Judy Green, a former education consultant from California, was sentenced on March 19, 2008 to serve 7 ½ years in prison for bid rigging and defrauding the USF E-Rate program. She was

sentenced in U.S. District Court for the Northern District of California in San Francisco after a jury found her guilty on 22 counts of fraud, bid rigging, and conspiracy to commit wire fraud at schools in seven states.

At its inception the E-Rate program was intended to provide discounts to assist most schools and libraries in the United States obtain affordable telecommunications and information services. Discounts range from 20% to 90% of the costs of eligible services, depending on a determination of poverty levels and the urban/rural status in the areas served by the schools and libraries.

Ms. Green became acquainted with the E-Rate program as an employee with the Los Angeles Unified School District in the fall of 1999. She leveraged her Los Angeles experience into being a consultant to school districts. As a consultant she would persuade her clients to apply for E-Rate funding, guide them through the process, and submit or help the school districts submit their E-Rate documents. Ms. Green preyed on schools at the 90% level (in poorer areas of Arkansas, California, Michigan, New York, Pennsylvania, South Carolina, and Wisconsin) because it was easier to inflate costs to cover the local match required by the FCC of 10%. Ms. Green

INVESTIGATIONS

was aware that the 90% schools almost always got funded for internal connections. Her scheme did not involve schools with a discount lower than 90% because they were not likely to get funding for internal connections which, in turn, meant Ms. Green could not make any money pursuant to her scheme. During this time period, she also worked in a different and contradictory role by acting as a sales representative for an E-Rate vendor where she marketed products to educational institutions, including school districts. In her dual role as consultant/sales representative, she implemented wire fraud schemes designed to inflate the cost of eligible equipment and services in order to pay for ineligible equipment and services. A critical aspect of the scheme was to make the E-Rate program believe the school districts would pay their local match (10%). Ms. Green invented various methods, including bogus donations from non-profit organizations, to hide the fact that the co-pay was actually being paid by E-Rate funds.

Ms. Green also rigged the bids on these projects in favor of vendors who had business relationships with her. She communicated with vendors when to bid or not bid, and who should be awarded a prime contractor or subcontractor role. The vendors followed these arrangements. To accomplish this scheme, a sham bidding process was conducted so that vendors were wrongfully selected on the basis of their relationship with Ms. Green. She would direct E-Rate projects to vendors in return for five to ten percent of any E-Rate funding the vendor received.

The FCC OIG was the first organization to investigate Ms. Green, opening an investigation in the later part of 2001. Eventually this office played a substantial role in the joint investigation that was conducted by the U.S. Department of Justice Antitrust Division and numerous offices within the Federal Bureau of Investigation.



INVESTIGATIONS

OIG Hotline

During this reporting period, the OIG Hotline technician received numerous calls to our published hotline numbers of (202) 418-0473 and 1-888-863-2244 (toll free). The OIG Hotline continues to be a vehicle by which Commission employees and parties external to the FCC can contact the OIG to speak with a trained Hotline technician. Callers who have general questions or concerns not specifically related to the missions or functions of the OIG office are referred to the FCC Consumer Center at 1-888-225-5322.

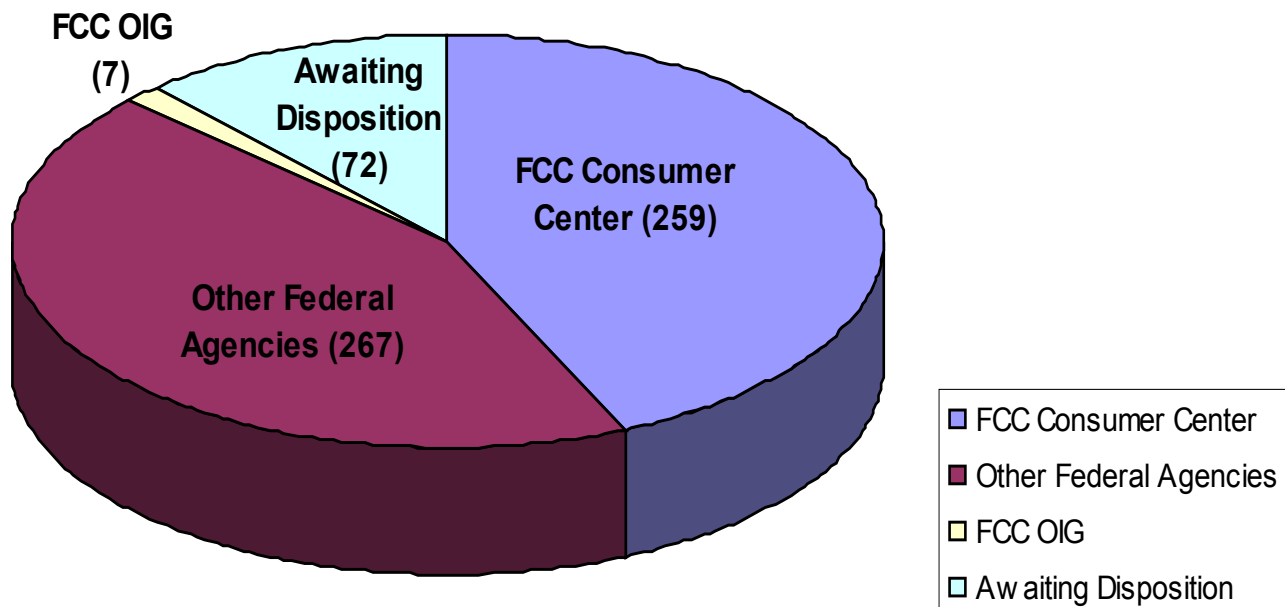
In addition, the OIG also refers calls that do not fall within its jurisdiction to other entities, such as other FCC offices, federal agencies and local

or state governments. Examples of calls referred to the Consumer Center or other FCC offices include complaints pertaining to customers' phone service and local cable providers, long-distance carrier slamming, interference, or similar matters within the program responsibility of other FCC bureaus and offices.

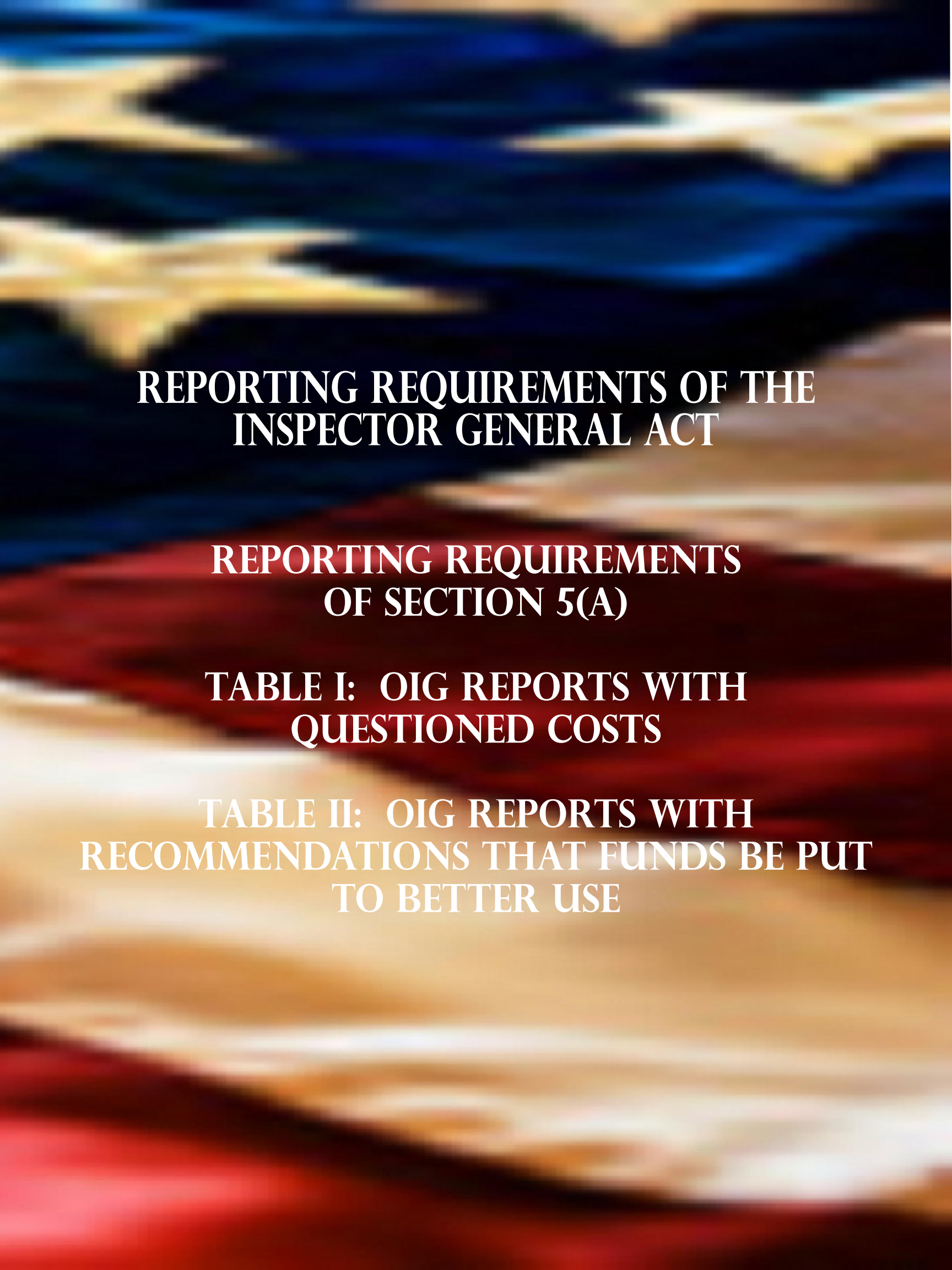
During this reporting period, we received 605 Hotline calls, which resulted in OIG taking action on seven of these calls and 72 calls awaiting disposition. The remaining calls were forwarded to the FCC Consumer Center (259 calls) and other federal agencies, primarily the Federal Trade Commission (267 calls).

INVESTIGATIONS

OIG Hotline Calls Record October 1, 2007 - March 31, 2008







REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT

REPORTING REQUIREMENTS OF SECTION 5(A)

TABLE I: OIG REPORTS WITH QUESTIONED COSTS

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

REPORTING REQUIREMENTS

The following summarizes the Office of Inspector General response to the 12 specific reporting 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.

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

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

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

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

No significant recommendations remain outstanding.

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

We referred a time and attendance case to the Department of Justice.

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

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

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

Each audit report issued during the reporting period is listed according to subject matter and described in the "Audit Areas" section and in Tables I and II of this report.

7. A summary of each particularly significant report.

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

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

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

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

REPORTING REQUIREMENTS

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

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

No audit reports fall within this category.

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

No management decisions fall within this category.

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

No management decisions fall within this category.

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

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.	67	\$6,170,410	-
C. For which a management decision was made during the reporting period.	67	\$6,170,410	-
(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.	-	-	-

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.	-	-

Report Fraud, Waste or Abuse to:

Email

Hotline@FCC.gov

Call Hotline:

202.418.0473 or

888.863.2244

www.FCC.gov/OIG

You are always welcome to write or visit.

Office of Inspector General

Federal Communications Commission

Portals II Building

445 12th St., S.W. Room 2-C762

Federal Communications Commission
Office of the Inspector General



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