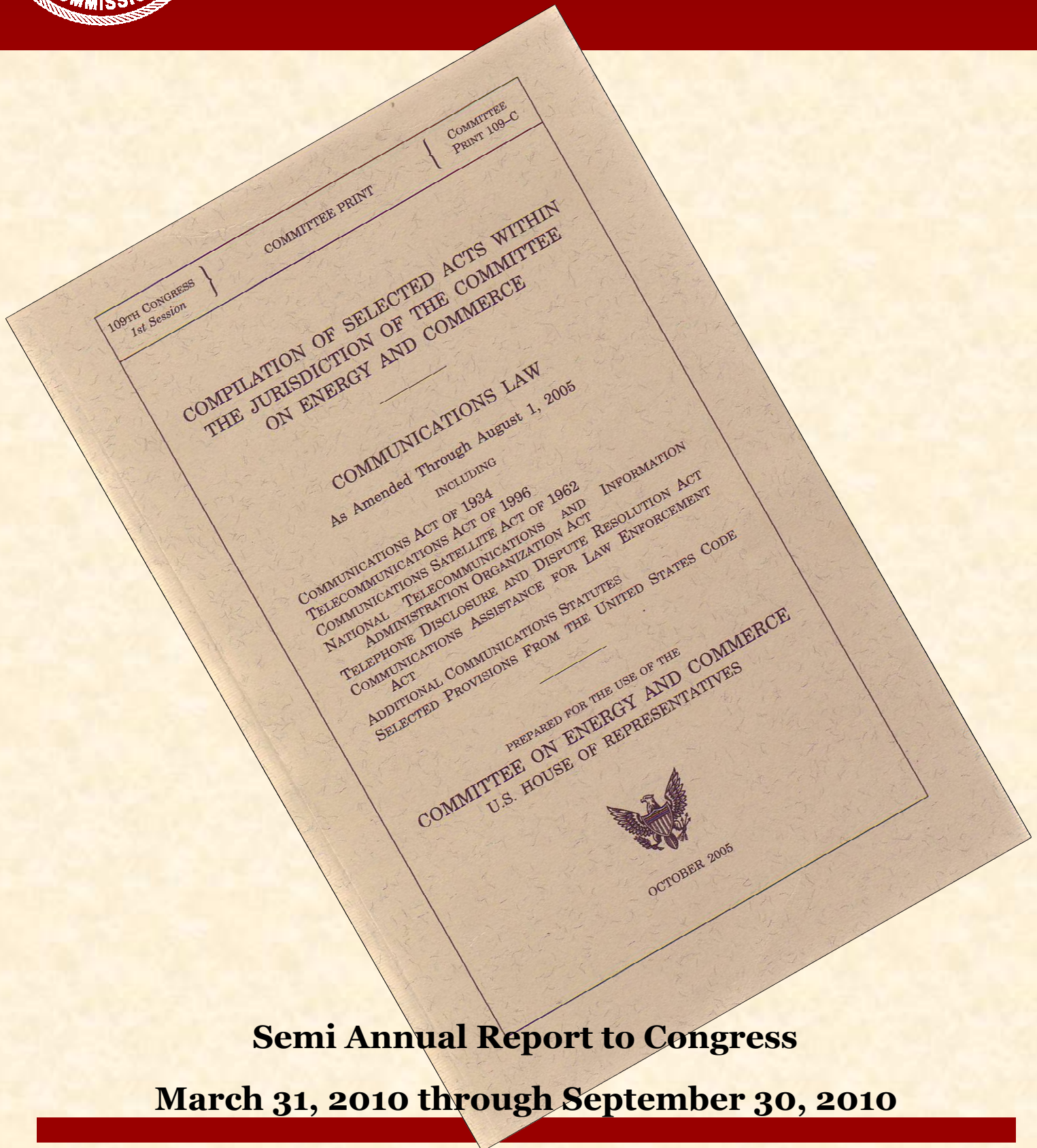




**OFFICE OF INSPECTOR GENERAL
FEDERAL COMMUNICATIONS COMMISSION**



Semi Annual Report to Congress

March 31, 2010 through September 30, 2010

The Federal Communications Commission



(left to right)

**Commissioner Clyburn, Commissioner Copps,
Chairman Genachowski, Commissioner McDowell,
Commissioner Baker**

COVER LETTER

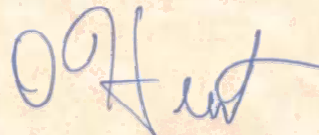
OFFICE OF INSPECTOR GENERAL

DATE: September 30, 2010
TO: Chairman, Federal Communications Commission
REPLY TO
ATTN OF: Acting Inspector General
SUBJECT: Semiannual Report to Congress

In accordance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. 3 § 5, I have attached my report summarizing the activities and accomplishments of the Office of the Inspector General ("OIG") during the six-month period ending September 30, 2010. 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 investigations, audits, a report to Congress regarding the National Exchange Carrier Association, and Universal Service Fund ("USF") oversight. This report describes audits that are in process, as well as those that have been completed during the preceding six months. OIG investigative personnel continued to address issues referred to, or initiated by, this office. Where appropriate, investigative and audit reports have been forwarded to the Commission's management for action.

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

TABLE OF CONTENTS

Introduction	2
OIG Management Activities	3
Office Staffing	4
Office Modernization	4
Internship Program	5
Legislative and Policy Matters	6
Audit Activities	9
Financial Audits	10
Performance Audits	10
Universal Service Fund Oversight	20
Investigations	25
Activity During this Period	27
Modernizing FCC OIG Investigations	28
Significant Investigative Case Summaries	28
OIG Hotline	35
Reporting Requirements of the Inspector General Act	37
APPENDIX– Results of Peer Reviews	39

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. Julius Genachowski serves as Chairman. Michel J. Copps, Robert M. McDowell, Mignon Clyburn, 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") is dedicated to ensuring compliance with the requirements of the Inspectors' General Act and assisting the Chairman in his continuing efforts to improve the effectiveness and efficiency of the Federal Communications Commission. The Acting Inspector General ("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 Shrewsbury, AIG for Management, Carla Conover, Acting AIG for Investigations/Counsel to the IG Kathleen O'Reilly, Special Counsel on the Universal Service Fund, Jon R. Stover, Senior Legal Advisor, and Curtis Hagen, Senior Audit Advisor.

This semiannual report includes the major accomplishments and activities of the OIG from April 1, 2010 through September 30, 2010, as well as information on the IG's goals and future plans.

OIG MANAGEMENT ACTIVITIES

OFFICE STAFFING

OFFICE MODERNIZATION

INTERNSHIP PROGRAM

LEGISLATIVE AND POLICY MATTERS

OIG MANAGEMENT ACTIVITIES

OFFICE STAFFING

OIG is comprised of 23 Full Time Equivalent (“FTE”) and 13 Not To Exceed (“NTE”) four year term appointed professionals, four FTE and two NTE support personnel, and one intern. The staffing needs of this office were described in the immediately preceding Semiannual Report. Since that report was issued, we have discussed our staffing needs with the Office of Management and Budget, Congressional staff and with FCC management. The 2011 Senate budget includes a recommendation for an additional \$3 million in the OIG budget. If approved and placed in the 2011 budget OIG will use these funds to hire 19 additional FTEs. The 15 NTE Office personnel are funded through monies transferred from USAC pursuant to the Consolidated Appropriations Act, 2008 (P.L. 110-161) that 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 more aggressively pursue fraud and waste in the USF program. All monies transferred via the above-mentioned appropriations act not being used to pay NTE employee salaries and benefits are used to further support USF oversight.

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 (also known as “FLETC”), the Inspector General Criminal Investigative Academy, other Inspectors General training programs and other relevant venues.

OFFICE MODERNIZATION

The Office is implementing the OIG Knowledge Management System designed specifically for managing audits and investigations. These systems modernize the Office and increase efficiencies and lesson the workload associated with audits and investigations. They also provide real time accessibility to OIG electronic documents. We are continuing to implement the following components of our management system:

- **LexisNexis Concordance** - OIG selected LexisNexis Concordance to achieve greater control, efficiency and insight across the entire discovery workflow when performing investigative work.
- **CMS** - CMS is a case file management system for investigations. CMS stores case-sensitive

OIG MANAGEMENT ACTIVITIES

information ensuring investigation information is not divulged without prior approval. This is a web-based information system can be accessed from the web browser on any OIG computer.

- **eDiscovery** - eDiscovery is an Electronically Stored Information (“ESI”) data storage system. Investigation electronic data requirements are greater each year, and OIG has to have the capability to search terabytes of information across e-mail systems, file shares, laptop, desktops, voice mail and other media systems.
- **TeamMate** - The TeamMate audit management software is now online and now provides auditors with an integrated, paperless audit management system, eliminating the barriers associated with paper-filled binders and disconnected electronic files. TeamMate is increasing 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.

All of the IG Knowledge systems are accessible through the FCC network either directly or through a Virtual Private Network (“VPN”) over encrypted channels.

INTERNSHIP PROGRAM

OIG welcomes college interns during the fall, spring and summer semesters. Most of these students take their internships for 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, George Mason, George Washington, and Northern Virginia Community College.

These internships have proven to be rewarding experienced 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.

OIG MANAGEMENT ACTIVITIES

LEGISLATIVE AND POLICY MATTERS

Pursuant to section 4(a)(2) of the Inspector General Act of 1978, 5 U.S.C.A. App. as amended, our Office monitors and reviews existing and proposed legislation and regulatory proposals for their potential impact on the OIG and the FCC's programs and operations. Specifically, we perform this activity to evaluate legislative potential for encouraging economy and efficiency while helping to reduce fraud, waste, abuse, and mismanagement.

Throughout the reporting period, we have reviewed various proposals for legislation affecting Inspector General responsibilities, such as draft legislation regarding IG Act amendments, proposals to authorize the Office of Government Ethics ("OGE") to direct an Inspector General to investigate specific matters, proposals to require an Inspector General inform OGE of ethics-related investigations, proposals to amend to the Whistleblower Protection Enhancement Act, and proposals for testimonial subpoena authority.

We are reviewing recently passed legislation, Public Law 111-203, the Dodd-Frank Wall Street Reform and Consumer Protection Act and Public Law 111-204, the Improper Payments Elimination Improvement Act, to ensure our compliance with the requirements therein and related Executive Orders. Please see the Appendix to this report for information regarding peer reviews as required by Public Law 111-203.

Effective July 22, 2010, newly enacted Public Law 111-204 amended the Improper Payments Information Act of 2002 to expand the requirements for identifying federal agency programs and activities susceptible to improper payments. The bill imposes new responsibilities not only on heads of agencies but also on inspectors general.

The heads of agencies are required to conduct:

- Recovery audits for agency programs that expend \$1 million or more annually if such audits would be cost-effective; and
- Financial management improvement programs that address problems that contribute directly to any improper payments made by an agency.

The agencies' reporting requirements are also expanded. Reports are required on actions to reduce the number of improper payments and to recover those payments.

OIG MANAGEMENT ACTIVITIES

The law now assigns a significant new role to inspectors general. Our Office will now be required to annually:

- Determine whether the agency is in compliance with the requirements of the bill; and
- Submit a report on that determination to the head of the agency, the House Committee on Oversight and Government Reform, the Senate Committee on Homeland Security and Governmental Affairs, and the Comptroller General.

Included in the scope of that OIG compliance review, for example, will be an examination of whether the Federal Communications Commission Chairman has:

- During the year after the enactment, and at least once every three fiscal years thereafter, reviewed and identified agency programs and activities that may be susceptible to “significant” improper payments;
- Consistent with Office of Management and Budget guidance, produced a statistically valid estimate of the improper payments within the agency’s programs; and
- Included such estimates in its annual financial statements.

In addition to legislative developments, OIG continuously monitors FCC policy development and provides input as appropriate.

OIG has also dedicated its Senior Audit Advisor and its Chief Economist to study and evaluate the FCC’s National Broadband Plan. This is being done with a view towards making comments and recommendations to the Chairman’s Office to greater effectuate his goals of efficiency and affordability, while also fulfilling our traditional role of stemming fraud, waste and abuse. Part of the knowledge set we can apply will be lessons OIG has learned in studying and overseeing the rollout and maintenance of other government programs so that historic problems and issues can be avoided to the extent possible.



USF Auditor Larry Rufai



**Investigative Attorney
Sally Smith**



**Beth Engelmann and
Nancy Birnbaum**

AUDIT ACTIVITIES

FINANCIAL AUDITS

PERFORMANCE AUDITS

UNIVERSAL SERVICE FUND OVERSIGHT

AUDIT ACTIVITIES

FINANCIAL AUDITS

Financial statement audits are mandatory 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 FCC's Fiscal Year 2010 Consolidated Financial Statements

In accordance with the Accountability of Tax Dollars Act of 2002, the FCC prepared consolidated financial statements for the 2010 fiscal year in accordance with Office of Management and Budget ("OMB") Circular A-136, Financial Reporting Requirements, and subjected them to audit. The Chief Financial Officers Act of 1990, as amended, requires the FCC IG, or an independent external auditor selected by the IG, to audit the FCC financial statements in accordance with generally accepted government auditing standards ("GAGAS") issued by the Comptroller General of the United States. Under the direction of OIG, KPMG LLP ("KPMG"), an independent certified public accounting firm, is performing the audit of FCC's FY 2010 consolidated financial statements. The audit is being conducted 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 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 other regulations.

Oversight of USAC's 2009 Financial Statement Audit And Agreed-Upon Procedures Examination

OIG performed oversight of the Universal Service Administrative Company's ("USAC") 2009 Financial Statement Audit and agreed-upon procedures related to USAC operations as required by Section 54.717 of the Commission's rules. Section 54.717 requires USAC, the USF Administrator,

AUDIT ACTIVITIES

to obtain an annual audit that examines its operations and books of account to determine whether USAC is properly administering the universal service support mechanisms to prevent fraud, waste and abuse and also requires OIG to take an active role in setting the audit scope, and reviewing and commenting on the audit plans and audit results. In response to this requirement USAC contracted with PriceWaterhouseCoopers LLP (“PwC”) to perform an audit of USAC’s 2009 Financial Statements and to perform the agreed-upon procedures established by USAC and FCC.

The 2009 USAC financial statement audit was performed in accordance with GAGAS. PwC issued an unqualified opinion on USAC’s financial statements and issued a Report on Internal Controls over Financial Reporting and on Compliance and Other Matters dated June 30, 2010. With regard to internal controls over financial reporting, PwC identified two significant deficiencies. PwC reported that the policies and procedures over accrued liabilities and the controls over the completion of fixed asset reconciliations need to be enhanced. PwC did not report any material weaknesses and did not report any instances of noncompliance or other matters that were required to be reported under Government Auditing Standards.

The agreed-upon procedures for the year ended December 31, 2009 performed by PwC was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The procedures included a review of the administration of the USF program, audit resolution/follow-up, the disbursement process, corporate governance, program administrative expenses, anti-fraud measures, contributor billing and collections, information technology environment and a review of selected activities of the High Cost, Low Income, Rural Healthcare and Schools and Libraries Support Mechanisms. The auditors noted several exceptions during the performance of the AUP for which USAC is developing corrective actions to address.

Fiscal Year 2010 Federal Information Security Management Act Evaluation

The Federal Information Security Management Act (“FISMA”) requires federal agencies to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source. According to FISMA, “information security” means protecting information and information systems from unauthorized access, use, disclosure, disruption, modification, or destruction in order to provide integrity, confidentiality and availability.

A key FISMA provision requires that each IG annually evaluate his or her agency’s information

AUDIT ACTIVITIES

security programs and practices. These evaluations must include testing of a representative subset of systems and an assessment based on that testing of the agency's compliance with FISMA and applicable requirements. To address this requirement, we contracted with KPMG to perform the 2010 FISMA evaluation. This evaluation will be completed by the end of the next reporting period.

Audit of FCC's Compliance with the FSIO Requirements for Financial Management Systems

OIG contracted for an independent audit of the FCC's Managerial Cost Accounting System. The objective of the performance audit was to determine whether FCC's managerial cost accounting system is compliant with the Financial Systems Integration Office ("FSIO") *System Requirements for Managerial Cost Accounting* for fiscal year ending September 30, 2009. As part of the managerial cost accounting system audit, the scope of the audit included the Budget Execution and Management System ("BEAMS"), the manual processes to compile the Consolidated Statement of Net Cost, and the system requirements for the new managerial cost accounting system. FCC, through its Momentum Genesis project, will be upgrading the current BEAMS to the new version of Momentum Enterprise, which is scheduled to be implemented in October 2010. As part of the audit of BEAMS, a comparison was made of FCC's documented system requirements for the new managerial cost accounting subsystem to the FSIO *System Requirements for Managerial Cost Accounting* to identify variances.

We issued our report on this audit on May 20, 2010. The audit concluded that as implemented by FCC, the managerial cost accounting system does not substantially comply with the FSIO *System Requirements for Managerial Cost Accounting*. Specifically, the following conditions were identified:

1. BEAMS does not produce complete cost data to support the Consolidated Statement of Net Cost. Currently, FCC uses a manually intensive process to produce the Consolidated Statement of Net Cost.
2. The managerial cost accounting system does not comply with FSIO information requirements for a managerial cost accounting system because the system does not include FSIO required data elements from the financial and operations information classification structures.
3. FCC management has not documented all of the key requirements from the FSIO *System Requirements for Managerial Cost Accounting* for the new managerial cost accounting subsystem that will replace BEAMS.

AUDIT ACTIVITIES

Management concurred with all recommendations and corrective actions are in progress.

Audit of the FCC Purchase and Travel Card Program

OIG contracted for an independent audit of the FCC's Purchase and Travel Card Program. The scope of the audit was fiscal year 2009 and included an examination of purchase and travel card transactions funded by the American Recovery and Reinvestment Act of 2009 ("ARRA"). The audit objectives were to:

- Evaluate the design and implementation of internal controls for the FCC's travel card and purchase card programs;
- Determine if internal controls for travel card and purchase card programs were adequate to ensure that transactions were properly authorized; adequately documented; and properly accounted for;
- Test travel card and purchase card transactions to ensure that they were properly authorized; adequately documented; properly accounted for; and for appropriate, legitimate business purposes;
- Determine if the FCC travel card and purchase card programs are being effectively managed using guidance and best practices provided in OMB Circular A-123, Appendix B, Improving the Management of Government Charge Card Programs; and
- Determine if travel and purchase card transactions funded by the ARRA were awarded and administered in compliance with provisions of the ARRA.

We issued our report on this audit on June 22, 2010. The audit report identified six findings related to internal controls over the FCC's Purchase and Travel Card Program including one finding for purchase and travel card transactions funded by the ARRA:

1. Management did not maintain adequate documentation for charge card transactions in accordance with the FCC's record retention policies outlined in the FCC Travel Manual and guidance

AUDIT ACTIVITIES

provided in the GAO *Standards for Internal Control in the Federal Government*. The audit found that management did not maintain copies of the individual cardholder “Statement of Account” or the monthly charge card transaction activity file for the months of October 2008 and December 2008 for examination by the auditors.

2. FCC officials who did not have formal delegation of authority as Approving Officials were authorizing purchases and travel requests, approving vouchers for payments, and reviewing and approving cardholders’ “Statement of Account” reconciliations.
3. Management did not provide adequate oversight and consistent enforcement of the Government Charge Card Program requirements. The audit noted the following weaknesses in the oversight and enforcement of the Government Charge Card Program requirements:
 - a. Management did not ensure performance of monthly random reviews of purchase and travel card charges to help ensure that they were properly authorized and for official government purposes.
 - b. The audit identified insufficient human resources for personnel designated as Agency/Organization Program Coordinators. The three personnel classified as Agency/Organization Program Coordinators were responsible for monitoring charge card transactions for over 200 FCC charge cardholders, in addition to being responsible for their primary duties.
 - c. The audit noted instances where a transaction was executed above the cardholder’s and Approving Official’s single purchase limit, credit card charges were not adequately supported by receipts, and Automated Teller Machine withdrawals were not properly authorized.
4. Management did not provide written evidence that purchase cardholders and Approving Officials had completed the mandatory fraud-training segment of the training offered by the FCC Contracts and Purchasing Center. In addition, for one out of the 15 charge cardholders tested, management was unable to provide written documentation to support that the charge cardholder had completed the web-based General Services Administration Purchase Card training prior to being issued a purchase card.
5. The audits of the FCC’s compliance with the provisions of *OMB Circular A-123, Appendix B*, noted the following:

AUDIT ACTIVITIES

- a. FCC's management did not develop and maintain a "Charge Card Management Plan" as required by *OMB Circular A-123, Appendix B, Chapter 2*.
 - b. The "Charge Card Management Plan" was not submitted to OMB, Office of Federal Financial Management by January 31, 2009.
 - c. FCC's management did not maintain and report data and performance metrics consistent with the requirements of *OMB Circular A-123, Appendix B, Chapter 5*.
6. The audit found that improvements were needed in the oversight of the purchase and travel card transactions funded by the ARRA. In the examination of 43 purchase and travel transactions funded by the ARRA, we noted the following:
- a. FCC Officials who had not been formally designated as Approving Officials gave approval for: 21 travel authorizations; 17 travel vouchers for reimbursement; two Forms A-518, *Request for Actual Subsistence*; and one Form A-519, *Request for Use of Private Vehicle*.
 - b. Travelers did not submit 27 travel vouchers for processing within five days of the completing their travel, as required by FCC policy.
 - c. One instance where the charges totaling \$561.20 for airfare on the monthly "Statement of Account" were not supported by actual receipts.
 - d. Three instances where the charges for the use of a private vehicle were not supported by a properly executed Form A-519, *Request for Use of Private Vehicle*.

Management generally concurred with the results of the audit, but did not concur with one finding and one recommendation as stated in our cover letter for the audit report.

Management agreed that human resources were insufficient to perform effective oversight of the Commission's Charge Card program. However, management did not concur with the auditor's recommendation that the Commission should decentralize some of charge card operations by assigning oversight and monitoring functions currently performed by Financial Operations to the travelers' respective Bureaus and Offices. The auditors did not agree with management's proposed actions. The auditors stated that they did not believe that maintaining the current centralized review process for travel card charges would effectively resolve the reports findings and reiterated their recom-

AUDIT ACTIVITIES

mendation. Additionally, management did not concur with the report's finding that the purchase cardholders had not completed mandatory fraud training, as required by FCC policy. The auditor's responded that their finding was based on FCC policy in effect at the time at the audit. However, management's proposed corrective actions, which include revising the Commission's directive to require Anti-Fraud training, meet the intent of the report's recommendation.

Audit of FCC Compliance with FSIO Requirements for Property Management Systems

OIG contracted for an independent audit to determine whether the FCC's Property Management System ("PMS") was compliant with the FISO *Federal Financial Management Systems Requirements for Property Management Systems (Joint Financial Management Improvement Program ("JFMIP")-SR-00-4)*. Federal agency property management systems are critical for establishing financial accounting and maintaining physical accountability over property. Such systems assist government property managers in managing their property in accordance with missions and roles established by Congress. The objectives of the audit were to:

- Determine whether the FCC's property management system meets FSIO requirements; and
- Evaluate the design and implementation of internal controls related to the FCC's property management system.

This audit has been completed and the report was issued on May 18, 2010. It identified six conditions where the FCC PMS did not comply with FSIO requirements. FCC management was provided with these findings and the related recommendations. Management provided their comments and they concurred with five of the six findings.

The audit noted the following matters relating to compliance with the financial management system requirements of FSIO and internal control over the property management system:

1. The FCC PMS did not meet three of the 12 mandatory general requirements for property management systems as follows:
 - a. The current system lacks the mandatory functionality to distinguish between property expensed and property capitalized.

AUDIT ACTIVITIES

- b. The FCC did not submit, in a timely manner, to the General Services Administration's (GSA's) Worldwide Inventory System the required *Annual Real Property Inventory* report. This is a report of all land, buildings, and other structures owned by the FCC throughout the world and all real property FCC leased from private individuals, organizations, municipal, county, state, and foreign governments. This report was due to be submitted to the GSA's, Office of Governmentwide Policy, Office of Real Property (MP), no later than November 15, 2009.
 - c. The condition of a property item tracked in the PMS is not supported by a documented *condition assessment survey*.
2. The FCC PMS also did not meet certain mandatory system requirements for "Managing and Accounting for Property," as follows:
- a. The FCC lacks a fully integrated financial management system. Asset information in the BarScan is posted to Federal Financial Management System via a manual ad-hoc process.
 - b. BarScan does not capture the current user of a property item.
 - c. The biannual *Report of Survey* identified several property items as not inventoried or located. These reports also identified sensitive property items not self-certified by the custodians as required by FCC policies and procedures.

Management provided their comments and noted that they concurred with five of the six findings – not concurring with finding 5 (2.b above). Management states that, in accordance with the FCC's Asset Management Policies Procedures, non-sensitive items are assigned to locations, not individuals. Items of a sensitive nature (easily converted to personal use like a cell phone, laptop computer or similar item) are assigned directly to an individual and reported annually on a self-certification form (A535). The FCC has consistently utilized this approach in its interpretation of the controls required by the JFMIP's Property Management System Requirements, which the independent auditors cited in their report. Management will continue to research the current standards for property management systems as they evolve and, if applicable, amend FCC policies and procedures to incorporate the current user on each non-sensitive property item. We are evaluating management's response to this finding.

AUDIT ACTIVITIES

Audit of the FCC Electronic Travel System (E-Travel)

We contracted for an independent audit of the FCC's Electronic Travel System (e-Travel) and the related internal controls. The Federal Travel Regulation requires that government agencies, with a few exceptions, deploy and use electronic travel systems to manage official temporary duty travel. The objectives of the audit were to:

- Evaluate the design and implementation of internal controls for the electronic travel system;
- Determine if the system has been effectively implemented, as required by the Federal Travel Regulation;
- Determine if the system was in compliance with the Financial Systems Integration Office Travel System Requirements (JFMIP-SR-99-9, July 1999); and
- Determine if the system had been fully implemented and was being effectively used for managing FCC travel.

We issued our report on this audit on April 26, 2010. The audit identified four findings related to internal controls in over the FCC's Electronic Travel System:

1. The FCC was not fully utilizing the system's capabilities to meet some mandatory FSIO functional requirements, including:
 - a. Providing a check for funds availability.
 - b. Maintaining and reporting travel obligation information for use by management.
 - c. Providing system administration functions to establish and maintain system tables that include approving officials and delegated authority, establish capability to use electronic signatures, and gather and analyze statistics.
 - d. Electronically processing local travel documents, which are currently being processed using paper documents.
2. The account management process needed to be improved. Specific findings included:

AUDIT ACTIVITIES

- a. One shared user account and password to log-on to the electronic travel system and three users sharing the same account.
- b. Accounts were still active for 11 of 16 separated employees more than 60 days after the employee left employment at the FCC.
- c. The system computed an inaccurate privately owned vehicle mileage expense reimbursement for two of the 20 travel documents tested.
- d. The FCC had not integrated its manually intensive travel processes, and thus had not achieved the efficiencies anticipated from implementing the automated travel system.

Management generally concurred with the auditor's findings and their recommendations for corrective action and agreed to implement additional procedures to encourage broader use of the capabilities of the FCC's Electronic Travel System.

Inspection of the FCC's Recovery Act Data Quality

OIG conducted an inspection of the FCC's ARRA reporting process. The purpose of this inspection was to determine whether, as of September 30, 2009, the Commission had established a process to perform limited data quality reviews intended to identify material omissions and/or significant reporting errors. OIG determined the following objectives had been met through an established data quality review process:

- Funds are awarded and distributed in a prompt, fair, and reasonable manner;
- Funds are used for authorized purposes and every step is taken to prevent instances of fraud, waste, error and abuse;
- Projects funded under the ARRA should avoid unnecessary delays and cost overruns; and
- Programs meet specific goals and targets and contribute to improved performance on broad economic indicators.

This inspection was completed on April 15, 2010.

AUDIT ACTIVITIES

Guam Realignment Project

The IG is a member of the Interagency Coordination Group (“ICG”) of Inspectors General for Guam Realignment. The ICG was established by Section 2835 of the National Defense Authorization Act for FY 2010, 111 Public Law 84, to oversee the U.S. Marine Corps realignment to the island of Guam. During the reporting period, we assisted the Department of Defense (“DoD”) OIG team by providing them with technical points of contact for telecommunications expertise from the FCC. We await further requests for technical and/or audit assistance from DoD.

UNIVERSAL SERVICE FUND OVERSIGHT

To provide oversight for the Universal Service Fund (“USF”) we have adopted a risk-based audit approach that reflects the scope of the program, involved parties and their respective roles, our experience, and other available information. In this semiannual report, we describe our accomplishments and activities for this reporting period.

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

The FCC’s universal service program has four support mechanisms:

- High Cost support is designed to ensure that consumers in all regions of the nation have access to and pay rates for telecommunications services that are reasonably comparable to those services provide 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 Sates 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 customers...should have access to telecommunications and information services...”
- Rural Health Care support provides reduced rates to rural health care providers for telecommun-

AUDIT ACTIVITIES

ications services and Internet access charges related to the use of telemedicine and telehealth. 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 telecommunications providers of international and interstate telecommunications services to contribute to the USF. The FCC does not require that they bill customers for that contribution, but does permit such billing in accord with FCC rules. Telecommunications providers include those that offer interstate telecommunications for a fee on a non-common carrier basis, interconnected Voice Over Internet Protocol providers and payphone providers that are aggregators.

National Exchange Carrier Association, Inc. Review

On July 1, 2010, OIG provided an interim report on its congressionally mandated review of the National Exchange Carrier Association, Inc. (“NECA”). The interim report detailed the focus and scope of the OIG review and provided relevant attachments.

In its review OIG has secured, reviewed and analyzed extensive documentation. As directed, its emphasis has been on examining whether, and to what extent, NECA is acting in compliance with the Communications Act of 1934, as amended, and the regulations promulgated there under, and whether, and to what extent, the FCC has delegated authority to NECA consistent with the Communications Act of 1934, as amended.

High Cost Program

During this performance period, the USF High Cost audit team initiated a project to develop tools to aid in the analysis of cost submissions by cost companies for the High Cost Loop Support (“HCLS”) and Local Switching Support (“LSS”) components of the High Cost Support Program. Cost companies receive support based on complex and detailed cost submissions. Disbursements to cost companies are approximately \$935 million in HCLS and \$250 million in LSS annually.

These analytic tools are being developed and tested by the OIG statistician and the OIG High Cost team and are intended to assist in risk-based audit planning for this program. These analytic tools will aid in the efficient use of limited resources. These tools might also be applied to the Interstate Common Line Support component submissions filed by cost companies (resulting in disbursements of approximately \$915 million annually).

AUDIT ACTIVITIES

Schools and Libraries Program

On September 30, 2010, OIG issued a final report on an attestation examination of a large school district in the State of California. The auditors found that the school district was materially compliant with FCC Rules and Regulations and Orders except that: 1) the District's service provider did not remove ineligible items from invoices and as a result an improper payment of \$31,805 was paid from USF; 2) the District received \$6,318 of free goods and services from the service provider and did not pay their share of the cost of ineligible items; and 3) the District certified receipt of cabling based on estimates instead of actual charges and an improper payment of \$432,423 for cabling costs was paid from USF.

As a result of our audit, recommendations were made by OIG to USAC to: 1) recover the improper payments; 2) review their policy concerning extending review of high risk invoices. In the case of this District's service provider's invoices, some invoices contained ineligible goods and services, but USAC did not extend the review to all the beneficiary's service provider invoices. Recommendations were made to the District to: 1) improve the certification process prior to payment and 2) remove ineligible items from the request for USF. The District has already taken action concerning the over-charged cabling by providing information to USAC to recover USF funds.

On June 9, 2010, OIG announced an audit of a public school district in the State of California. This audit was selected from a statistical sample of Schools and Libraries Program beneficiaries based on program risk factors. On-site fieldwork is complete and a draft audit report is expected to be issued during the next reporting period.

Low Income Program

On March 10, 2010, OIG announced an audit of the Low Income disbursement system. The purpose of the audit is to determine whether the disbursement system is in accordance with applicable law, and meets the goals of eliminating fraud, waste, and abuse in the federal universal service program. Audit field work was completed in August 2010 and the draft audit report is in review. We expect to conduct an exit conference with FCC and USAC, and issue the draft and final versions of the audit report during the next semi-annual period.

AUDIT ACTIVITIES

Contributors

During the period, OIG issued eight performance audit reports for audits of telecommunications and VoIP providers to determine whether the companies complied with FCC rules regarding the reporting of revenue information subject to USF contributions. The reports were dispositioned as follows:

- Two companies were issued reports for comment on August 16, 2010.
- One report was issued to the FCC's Office of Managing Director ("OMD") and the Wireline Competition Bureau ("WCB") for comment on August 16, 2010. The Company has generally agreed with the findings in the report.
- Two reports were issued to OMD and WCB for comment on September 9, 2010. In response to the report, one Company disagreed with aspects of a finding, provided some additional information, and generally agreed with the recommendation. In response to Company comments and additional information, changes were made to the draft final report submitted for management review. The other company agreed with the findings and recommendations.
- A report was issued to a company for comment on September 29, 2010,.

We anticipate receiving comments from the auditees and management on these reports and issuing final reports during the next semiannual reporting period.

On September 15, 2010, two final audit reports were issued. One Company overcharged USF recovery on customers' bills and did not include international revenues in the total amount of interconnected VoIP revenues subject to the safe harbor. The other Company reported different international revenue amounts on the FCC Form 499-A and the report required by 47 CFR § 43.61, and did not report current information on the Form 499-A regarding the agent for service of process.

Audits of Universal Service Administrative Company Committees

OIG contracted for two audits of USAC Committees, the Schools and Libraries Committee and the High Cost and Low Income Committee. These committees oversee the administration of USF support mechanisms. The committees are responsible for such actions as projecting demand for the support mechanisms, administering the application process, and performing audits of support bene-

AUDIT ACTIVITIES

ficiaries. 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, issued in June 2010, did not result in significant findings or recommendations but did include suggestions for improvement in program oversight.

Support to Investigations

During this reporting period the USF audit team provided support to OIG's investigations unit. The type of support provided included:

- Meeting with investigators to assess additional information request; and
- Providing assistance on-site visits.

Also during this reporting period, the USF audit team continued to provide ongoing support to High Cost investigations. Audit support to High Cost investigations requires more time than typical investigations because of the complexity of the issues and the technical knowledge required to develop a case. The type of support provided included:

- Responding to OIG investigatory-attorney questions; and
- Providing analysis of telecommunication provider data reviewing documents.

Future USF Oversight Plans

For FY 2011, the audit planning approach is somewhat different than it was in the previous year. The current emphasis is to have the maximum impact on the programs. Staffing limitations restrict the scope of any USF oversight plan. To develop a multi-faceted plan to provide oversight for the USF, we will review and evaluate the scope of the program, involved parties and their respective roles, our experience, and other available information. Our concentration will be on the program side of the equation rather than the beneficiary/program participant.

INVESTIGATIONS

ACTIVITY DURING THIS PERIOD

MODERNIZING FCC OIG INVESTIGATIONS

SIGNIFICANT INVESTIGATIVE CASE SUMMARIES

INVESTIGATIONS

FCC OIG investigations are initiated for numerous reasons. Our investigations often address allegations of fraud in FCC programs, such as the federal Universal Service and Telecommunications Relay Services Fund programs, or other criminal activity or misconduct within the FCC or its programs. Many investigations are based on allegations of employee misbehavior, violations of federal law or FCC regulations or other forms of fraud, waste, abuse or criminal activity. We also receive and investigate 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 OIG directly with concerns about fraud, waste, abuse or other inappropriate behavior. Individuals call or e-mail OIG Hotline, or send complaints through the United States Postal Service. OIG's Hotline is continuously monitored, and urgent matters are forwarded to the appropriate OIG staff member soon after it is received. The reply times for allegations that require a response is constantly evaluated. OIG has made Hotline processing a special priority, and will continue to do so.

Allegations can be, and frequently are, made anonymously and can require substantive outreach to ensure the potential source is comfortable with the processing of providing information to OIG. Our Office to date has agreed to every accommodation possible as we recognize what a critical source of information this provides to every IG office. We also receive valuable referrals from other government agencies, federal, state and local, including the Government Accountability Office, the Office of Special Counsel, and congressional and senatorial offices. 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, we conduct a preliminary review of the matter to determine if further investigation or referral to another office or agency is warranted. Sometimes serious allegations may merit attention, but be outside the jurisdiction of 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 action as necessary or appropriate. As much as possible, OIG continues to be involved and serve as a facilitator for matters that are outside the jurisdiction of this office. The FCC 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.

INVESTIGATIONS

OIG works not only on a large number of investigations, but a large variety of investigations. Among other matters, we deal with complex cyber crime investigations, large criminal conspiracies, and cases 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 other agencies, especially including OIG of other federal agencies. This cooperation within the law enforcement community has saved this office valuable time and expense on many occasions.

The AIGI and our investigators also work with other agencies, including the U.S. Department of Justice (“DOJ”), 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 known 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 DOJ and the FCC and its OIG. Those efforts have now resulted in a history of successful prosecutions and indictments, and of restitution for such fraud to the USF.

ACTIVITY DURING THIS PERIOD

At the outset of this reporting period, eighty one (81) cases were pending. Over the last six months, nine (9) cases have been closed and twenty-five (25) opened. As a consequence, a total of ninety-seven cases are pending. These numbers do not include preliminary reviews of allegations, from the Hotline or other sources, or related minor evidence analysis.

Statistics

Cases pending as of April 1, 2010	81
New Cases	25
Cases Closed	9
Cases pending as of September 30, 2010	97

INVESTIGATIONS

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 were implementing a new electronic case management system and continuing to enhance our use of recently acquired enhanced electronic forensic tools. We continue to work on these and related efforts to find and utilize modern technology in ways that will leverage our resources for the most efficient and effective investigation and prosecution of fraud, waste and abuse in FCC missions and programs.

SIGNIFICANT CASE SUMMARIES

Several of the most recent efforts of this office are described below. There are, however, many other matters that, due to their sensitive nature or related investigations, cannot be included. We discuss significant investigations when and if information becomes or can be made public without negative impact on law enforcement activities or prosecution.

Univision Pleads Guilty in Criminal Investigation

On July 26, 2010, the General Counsel for Univision Communications Inc. admitted in U.S. District Court that the government could prove in full the charges that executives, employees, and agents of Univision Music Group engaged in a conspiracy to commit mail fraud from in or around 2002 to in or around September 2006 as part of a nationwide scheme in which Univision Music Group paid illegal cash consideration to radio station programmers and managers in exchange for increased radio broadcast time for its recordings without disclosing to the listening public that Univision had paid for such broadcasts as required by the Communications Act. These executives, music promoters and agents used fraudulent contract invoices and payments to obtain off-the-books cash for the fraud scheme and to conceal the nature of the Univision expenditures that funded that scheme. During the investigation that led to the plea agreement, Univision Communications Inc. sold Univision Music Group, a collection of Univision subsidiaries that produced recordings and published music for the Latin music market, and related assets.

Under the plea agreement, Univision Communications Inc. agreed to pay a fine of \$500,000 and cooperate fully with the DOJ and other law enforcement agencies in related matters, including facilitating the cooperation of former executives, employees and agents in law enforcement investigations. In a parallel administrative proceeding, Univision Radio Inc., another wholly-owned subsidiary of Univision Communications Inc, agreed to pay the United States Treasury \$500,000 and imple-

INVESTIGATIONS

ment a compliance plan to end an investigation by the FCC Enforcement Bureau into the conduct of Univision radio stations in the nationwide payola scheme.

The criminal case was prosecuted by Peter B. Loewenberg of DOJ's Criminal Division Fraud Section with assistance from Assistant United States Attorney Richard Robinson. The investigation was conducted by the DOJ, the United States Postal Inspection Service, and the FCC Office of Inspector General. Our office continues to assist DOJ in related on-going investigations.

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

FCC OIG is continuing its work on several fraud investigations involving Video Relay Service ("VRS") - a subset of Telecommunications Relay Service ("TRS"). The FCC's Consumer and Government Affairs Bureau ("CGB") describes VRS as follows:

"VRS is a form of TRS that enables persons with hearing disabilities who use American Sign Language ("ASL") to communicate with voice telephone users through video equipment, rather than through typed text. Video equipment links the VRS user with a TRS operator - called a "communications assistant" ("CA") - so that the VRS user and the CA can see and communicate with each other in signed conversation. Because the conversation between the VRS user and the CA flows much more quickly than with a text-based TRS call, VRS has become an enormously popular form of TRS".

People can access VRS through a television or a computer equipped with a video camera. Through a broadband Internet connection, a caller first contacts a VRS CA qualified to use ASL. Communicating with each other in a sign language via the Internet, the VRS CA then contacts the other principal to the call. The conversation between the parties is both in sign language (for the VRS user), and by voice (for the called party). VRS is not billed to the caller. VRS providers are instead compensated for their costs from the Interstate TRS Fund.

The OIG VRS investigations were initiated based upon allegations given directly to our Office. During the course of the investigation more allegations came to light, and potential witnesses contacted either our Office or the FCC's Enforcement Bureau ("EB") or CGB. OIG attorney-investigators traveled nationwide interviewing witnesses, and even had witnesses flown into Washington, DC to meet with OIG at FCC headquarters. Because most witnesses had hearing impairments OIG made arrangements with contractors and individuals at the FCC who could converse in ASL. With the

INVESTIGATIONS

volume of evidence mounting quickly from many sources, including critical leads from EB and CGB, the then AIGI directed the VRS Investigation Team to prepare a presentation of the case to DOJ in late 2008.

Less than twelve months from the initial presentation to DOJ, on November, 19, 2009 indictments were unsealed against 26 people and one corporate entity charged with engaging in schemes to steal tens of millions of dollars from the Interstate TRS Fund. Arrests were made that day by FBI agents and United States Postal Inspectors, accompanied by FCC OIG investigators, in New York, New Jersey, Florida, Texas, Pennsylvania, Arizona, Nevada, Oregon and Maryland, and were the result of a joint FBI, U.S. Postal Inspector Service, and FCC OIG investigation into nationwide fraud in the provision of VRS.

The indictments allege that those 26 individuals engaged in a scheme to defraud the FCC by submitting false and fraudulent claims for VRS calls, allowing the defendants to be reimbursed at a rate of approximately \$390 per hour. Each of the indictments alleges that the defendants made, or caused others to make, or processed fraudulent calls that were then submitted for reimbursement from the TRS Fund. The indictments allege that these calls, often referred to as “r calls,” “rest calls,” or “run calls,” served no other purpose than to generate call minutes that would be billed to the FCC’s VRS/TRS Fund.

In other words, calls were made and billed when there was no legitimate ongoing communications. In fact, in many cases there is evidence that there was no communication *at all* because both principals to the call put up privacy screens (no communication is possible because of the very nature of video relay), or there was only *one party* to the call. There is evidence of many instances of calls such as “run” calls that lasted for hours under these circumstances.

On June 23, 2010, Benjamin Pena, was among 25 other individuals indicted and charged with engaging in a nationwide scheme to defraud the FCC's VRS program. He was convicted for his participation in a plan whereby he and others were compensated for generating hundreds of thousands of fraudulent minutes provided through Viable Communications Inc., an uncertified VRS provider. After a three-day trial in U.S. District Court in Trenton, New Jersey, a jury found Pena guilty on five of six counts, including two counts of filing false claims with the government and two counts of mail fraud. At sentencing, Pena faces a maximum statutory sentence of fifty-years, and under the federal sentencing guidelines, Pena faces a prison term of between nine and eleven years.

On July 6th, 2010, Dary Berke and Lisa Goetz, employees of KL Communications and Master Com-7. A summary of each particularly significant report.

INVESTIGATIONS

munications, pleaded guilty to conspiracy to commit mail fraud by generating and assisting others in generating bogus VRS calls. At sentencing, scheduled for October 13, 2010, each faces a maximum sentence of 20 years in prison and a fine of \$250,000, as well as mandatory restitution and forfeiture.

The pleading cycle has been established for the Commission's February, 2010 VRS fraud prevention Declaratory Ruling, Order, and Notice of Proposed Rulemaking ("NPRM"). The NPRM, in addition to confirming that TRS Fund payments can be suspended for providers who do not submit to audits, requires senior executive certification (under penalty of perjury) that minutes submitted for compensation are legitimate. The NPRM has also tentatively concluded that rules should be adopted that, among other protections, would grant whistle-blower protection to communications assistants/video interpreters and other TRS employees who report evidence of fraud.

On June 28, 2010, the Commission released two items addressing the provision of TRS service. The first order adopts per-minute compensation rates from the TRS Fund for each form of TRS for the 2010-2011 Fund year.

The second item is a Notice of Inquiry ("NOI") seeking comments on, among other issues, how best to eliminate opportunities for waste, fraud or abuse in the provision of VRS. The NOI also seeks comments on such specific issues as: (1) use of a company-specific compensation model, (2) compensation of outreach and marketing costs, (3) compensation of research and development costs, (4) the appropriate treatment of videophone and related equipment costs, and (5) protections from under- or over-compensation of VRS providers.

The June 28, 2010 TRS rate order notes "a substantial disparity between [VRS] providers' reported projected costs and demand, what turns out to be their actual costs and demand," and finds that the Commission "can no longer justify basing VRS compensation rates only on projected costs." The order reduces the per minute rate for VRS minutes exceeding 500,000/month from \$6.24/minute to \$5.07/minute and applies post investigation excess 2009-2010 rate year contributions against 2010-2011 funding requirements. It also lowers other VRS rate levels to roughly \$6.24/minute.

In just the current fund year (the TRS rate year runs from July 1st of the initial calendar year through June 30th of the following calendar year), the total savings to the TRS Fund resulting from the VRS investigation and the proceedings noted above is over \$417 million, roughly \$160 million of which results from post investigation VRS demand declines (the volume of VRS calls fell 18% as a result of the VRS investigation) and \$257 million of which results from lower Fund year demand projections and lower VRS rates.

INVESTIGATIONS

The largest VRS provider sought a stay of the June 28, 2010 TRS rate order in the 10th Circuit U.S. Court of Appeals; however, on July 29, 2010, the court denied the stay finding that the appellant failed to convince the court that it was likely to succeed on the merits or that the public interest was best served by issuing a stay.

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 Investigations 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.

Largest Ever On-Site Survey of USF-Funded Equipment

As disclosed in various news reports, FCC OIG is assisting DOJ in investigating various allegations of fraud in the FCC's universal service program involving school districts throughout Texas and, as part of our coordinated efforts, during July and August the FCC OIG conducted our largest and longest ever on-site survey of universal service funded equipment. During the two week on-site portion of this effort, the FCC OIG went to schools and administrative building in various parts of Texas seeking to determine the existence, location and use of USF-funded equipment. The evidence collected will be used in support of multiple investigations, including ones in which FCC OIG is assisting the U.S. Attorney's Office for the Southern District of Texas. It was performed by a 10 person team drawn from every office within OIG. The team included investigators, auditors, administrative staff and interns performing and supporting forensic auditing and investigation procedures. FCC OIG is currently reviewing and analyzing the valuable and enormous amounts of evidence collected as part of its on-going investigative work.

INVESTIGATIONS

Indictment of Donna English for Defrauding the FCC Universal Service Program

In May 2010, Donna P. English, d/b/a/ Project Managers, Inc. (PMI), was indicted with defrauding the FCC's Universal Service Program and the River Forest Community School District (RFCSC), located in Hobart, Indiana. English, d/b/a/ PMI, was also charged with the theft of the public money from the U.S. Department of Housing and Urban Development that she received as a result of her employment as a technology consultant for the Michigan City Housing Authority, located in Michigan City, Indiana.

According to the indictment English (of Michigan City, Indiana), defrauded the Universal Service Program and the school district by submitting false invoices and information and in accepting payments for services not provided. English was also charged with felony theft of public funds which were paid to her for technology products and services that English and PMI failed to provide to the Michigan City Housing Authority.

This case was investigated by the FCC OIG, the Antitrust Division of the United States Department of Justice, the United States Department of Education Office of Inspector General, the United States Postal Inspection Service, the Indiana State Police, and the Housing and Urban Development Office of Inspector General. This case is being prosecuted by Assistant United States Attorney Toi Houston, and Jennifer Dixon, Trial Attorney, Anti-Trust Division.

Debarment of Rowner and Soled from the E-Rate Program

On April 7, 2010, the FCC suspended Benjamin Rowner and Jay H. Soled from participating in the E-Rate Program. On June 23, 2010, Mr. Rowner and Mr. Soled were both debarred from participating in the E-Rate Program for a period of three years. Rowner's and Soled's debarments were based on their guilty pleas on July 10, 2008, to knowingly and intentionally conspiring with others to defraud and obtain money from the E-Rate Program through submission of materially false representations, concealment of material facts, mail fraud, wire fraud, and intentional manipulation of the competitive bidding process.

From 1999 to at least November 2003, Rowner and Soled held themselves out as E-Rate salespersons and installers for the purpose of defrauding the E-Rate Program. Rowner and Soled admitted that they and others devised schemes to defraud school districts and the E-Rate program by having their co-conspirators steer E-Rate related contracts to various companies that directly benefited Rowner and Soled, their conspirators, and their company, primarily DeltaNet, Inc. In furtherance

INVESTIGATIONS

of the schemes, they submitted misleading, fraudulent and false documents to the Universal Service Administrative Company (“USAC”) claiming schools paid or would pay their co-pay, submitted other materially false and fraudulent documents to USAC, and concealed from the school districts relationships with co-conspirators in order to induce schools to select his companies as service providers in violation of E-Rate Program rules. Ultimately, Rowner’s and Soled’s conspiracy was comprised of two closely related schemes that affected at least thirteen different schools in eight different states across the United States. On February 4, 2010, each was sentenced to serve twenty-seven months in in prison, to be followed by twenty-four months of supervised release and to pay restitution to the FCC’s Universal Service Program.

Investigations into Fraud in Recovery Act Funded FCC Contracts

American Recovery and Reinvestment Act of 2009 (“Recovery Act”) funds were used to award over 80 FCC contracts to assist the Digital Television Transition outreach efforts to assist the public, and in particular, broadcast television viewers. This is because broadcast stations had to meet the new statutory mandate to switch from over-the-air analog to digital broadcast signals. Under the Recovery Act, the National Telecommunications and Information Administration of the Department of Commerce transferred \$70,605,000 in funding to the FCC for education and outreach efforts to support the Digital-To-Analog Converter Box Program (“DTV Roll-out”). This transfer funded DTV Roll-out initiatives such as media advertising buys, community walk-in assistance centers, in-home converter box assistance, and call center support services among others. In this way, the DTV Roll-out fulfilled the Recovery Act’s program-specific purpose of educating groups most at risk for losing television service during the transition from analog to digital broadcasting.

In support of its Digital Television efforts, the FCC awarded contracts for public relations and press services, basic in-home installation services, expert in-home installation services, walk-in centers/mobile clinics, call center support services, and the development and support of www.dtv.gov. Contracts were awarded to over 40 vendors operating throughout the United States. To date, the FCC has paid out over \$62 million of the Recovery Act funds for Digital Television outreach.

The FCC OIG has received and continues to receive allegations of fraud and misconduct in the FCC’s DTV Roll-out program from a variety of sources, including OIG Hotline, news reports, and the FCC’s Office of Managing Director. Resulting OIG investigations have revealed indications of fraud, as well as an array of contract performance problems and what appear to be failures in the proper processing of invoices and payments for DTV-related contracts. At present, FCC OIG has 20 active Recovery Act investigations.

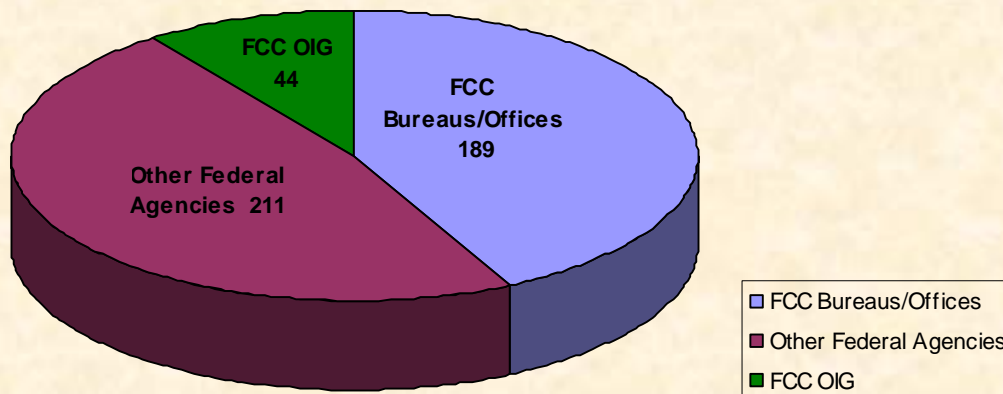
INVESTIGATIONS

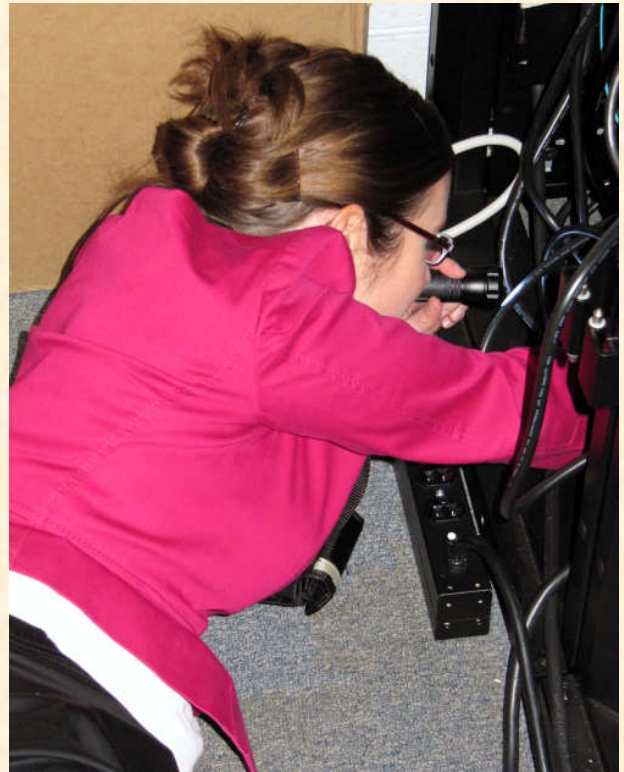
OIG HOTLINE

During this reporting period, the OIG Hotline technician received numerous calls to the published hotline numbers of (202) 418-0473 and 1-888-863-2244 (toll free). The OIG Hotline continues to be a vehicle by which Commission employees and parties external to the FCC can contact 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, 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.

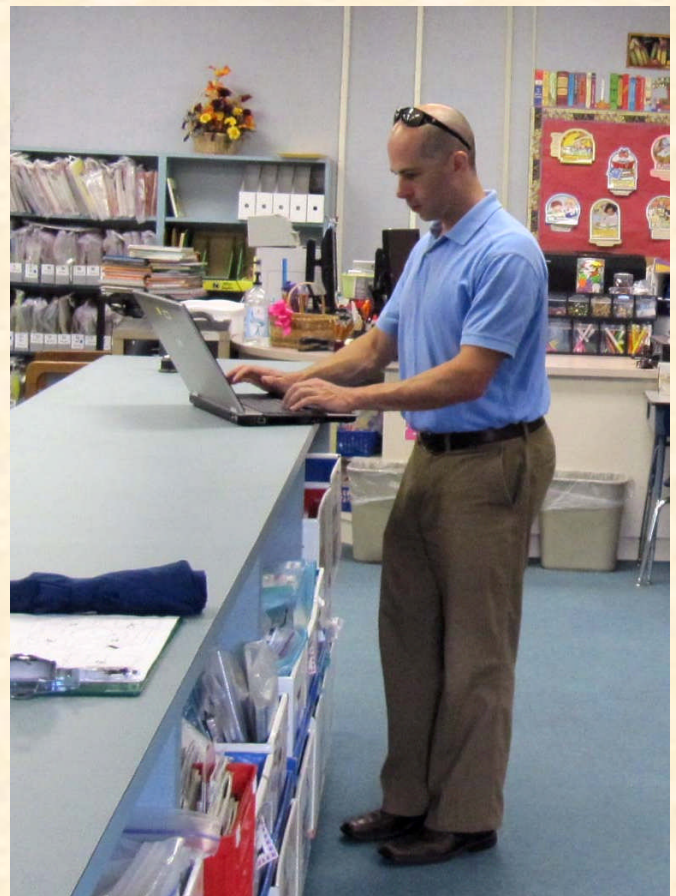
During this reporting period, we received 444 Hotline contacts, which resulted in OIG taking action on 44 of these. The remaining calls were forwarded to the other FCC bureaus and offices, primarily the FCC Consumer Center (189 calls) and other federal agencies, primarily the Federal Trade Commission (211 calls).

OIG Hotline Calls Record
April 1, 2010 - September 30, 2010





OIG Team in Texas



REPORTING REQUIREMENTS

The following are 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 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, abuses, or deficiencies identified pursuant to paragraph (1).

Please refer to the section 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.

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.

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.

We issued no reports with questioned costs during the reporting period.

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.

We issued no reports with recommendations that funds be put to better use during the reporting period.

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

APPENDIX

RESULTS OF PEER REVIEWS

As required by Public Law 111-203, we are pleased to report that the OIG of the Equal Employment Opportunity Commission conducted a peer review of this office during the reporting period and its review resulted no recommendations for any corrective actions. The peer review report, dated August 3, 2010, concluded the system of quality control for the FCC OIG provides reasonable assurance of performing and reporting audits in conformity with applicable professional standards in all material respects and FCC OIG has received a peer review rating of *pass*.

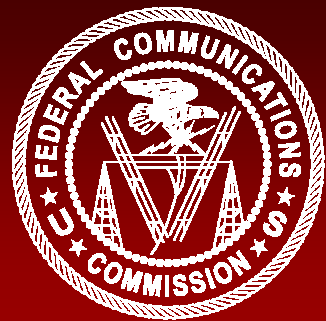
This Office also conducted a peer review of the Pension Benefit and Guaranty Corporation OIG. Our review resulted in a *pass* rating for their system of quality control for the period under review.



Report fraud, waste or
abuse to:

Email: Hotline@FCC.gov

Call Hotline: 202-418-0473 or
888-863-2244



**OFFICE OF INSPECTOR GENERAL
FEDERAL COMMUNICATIONS COMMISSION**

Office of Inspector General

Federal Communications Commission

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