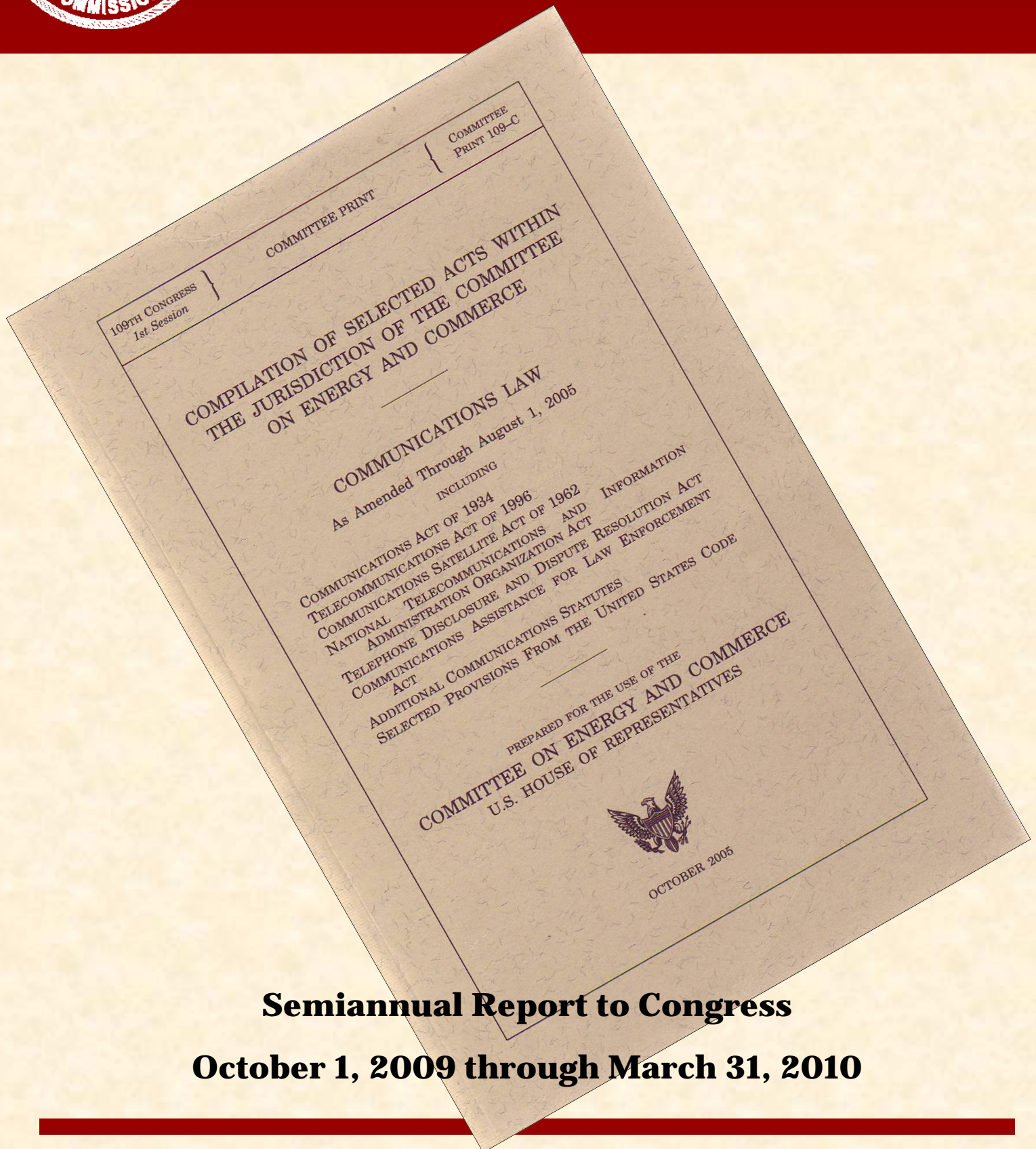




**OFFICE OF INSPECTOR GENERAL
FEDERAL COMMUNICATIONS COMMISSION**



**Semiannual Report to Congress
October 1, 2009 through March 31, 2010**

The Federal Communications Commission



(left to right)

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

COVER LETTER

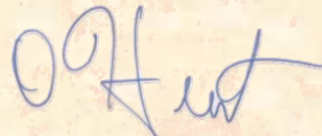
OFFICE OF INSPECTOR GENERAL

DATE: March 31, 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 Inspector General ("OIG") during the six-month period ending March 31, 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 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. The Video Relay Service, by far the largest investigation conducted by this Office, continues as we and other law enforcement entities working with us prepare for the many upcoming criminal trials. The first trial is scheduled to commence in June.

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



David L. Hunt
Acting Inspector General

Enclosure

cc: FCC Chief of Staff
FCC Managing Director

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INTRODUCTION

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

The FCC consists of a Chairman and four Commissioners, who are appointed by the President and confirmed by the United States Senate. Julius Genachowski serves as Chairman. Michael J. Copps, Robert M. McDowell, Mignon Clyburn, 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 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 FCC. 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 and Counsel to the IG, Kathleen O'Reilly, Special Counsel on Universal Service Fund and Curtis Hagen Senior Audit Advisor.

This Semiannual Report includes the major accomplishments and activities of the OIG from October 1, 2009 through March 31, 2010, as well as information on the IG's goals and future plans.



David Hunt, Acting Inspector General

OIG MANAGEMENT ACTIVITIES

OFFICE STAFFING OFFICE MODERNIZATION INTERNSHIP PROGRAM LEGISLATIVE AND POLICY MATTERS



AIG for
Management
Harold Shrewsberry
and
Management Analyst
Diane Scott

OIG MANAGEMENT ACTIVITIES

OFFICE STAFFING

At the end of the reporting period, OIG had a staff of over 40. A number of IG staff were employed approximately two years ago with a term limit not to exceed 4 years (commonly referred to as NTE status). These individuals were hired to aggressively pursue fraud and waste in the Universal Service Fund (“USF”) program. As mentioned in prior Semiannual Reports, these individuals are funded through monies transferred from the Universal Service Administrative Company (“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 individuals have greatly increased the capabilities of this office, and we are now working on a number of critical investigations and audits in areas heretofore not given this new level of critical examination. However, of the 19 staff originally hired, four have since left – a ratio of over 20 percent. The reason for leaving has been consistent – people have left to find a permanent position (typically elsewhere within the federal government). These losses are aggravated by the fact that this Office has spent resources training all of the NTE employees in the intricacies of the USF program. Given the foregoing, this office is now pursuing the possibility of retaining a number of these positions on a permanent basis.

Our staff consists of well-trained, seasoned professionals, most of whom have one or more professional certifications. We support their efforts to expand their professional knowledge and recognition. In our continuing efforts to increase the expertise of our auditors, attorneys and investigators, members of this office have attended classes at the Federal Law Enforcement Training Center (“FLETC”), the Inspector General Criminal Investigative Academy, and other training programs.

OFFICE MODERNIZATION

The Office is continuing with the implementation of new software components (the OIG Knowledge Management System) designed specifically for managing audits and investigations. The installation of these new components is almost complete. When fully implemented these components will modernize the Office and increase efficiencies. For example, the Office is acquiring and implementing electronic investigation tools to aid investigators in discovery and analysis of evidence.

OIG MANAGEMENT ACTIVITIES

Electronic Investigation Tools

OIG selected LexisNexis Concordance (“Concordance”) to achieve greater control and efficiency in handling information workflow when performing investigative work. OIG Investigations has been using Concordance in document intensive investigations throughout the reporting period. The implementation of the system is almost complete with final refinements being made. During the reporting period, administrative support staff received training tailored to the investigative mission requirements for the use of Concordance.

This product will offer additional support by:

- identifying and evaluating the relevance of documents more accurately and efficiently;
- quickly and easily loading, culling, converting, reviewing and producing supporting documentation; and
- linking document review and critical fact management for more effective case analysis.

Case Management System

The Case Management System (“CMS”) is a case file and case tracking management system for supporting investigations. CMS stores case-sensitive information in a manner in which sensitive information is not divulged without prior approval. During this reporting period, CMS has been refined to meet the specific needs of our Office with testing to be completed and full implementation planned for the next reporting period.

eDiscovery

The Office also is working to develop a more comprehensive data storage and search system, referred to as eDiscovery. The electronic evidence collected, reviewed and used by investigators grows by terabytes across email systems, file shares, laptop, desktops, voice mail and other media systems. The electronic evidence and the system requirements for searching and using the evidence are often different within and among various investigations and may not be fully compatible with the tools currently available to our investigators. The Office is seeking to build a robust storage and search capability to meet the ever-changing challenges of investigation in the electronic world. And as this system is developed and implemented, we will explore the possibilities of data mining within this and other systems.

OIG MANAGEMENT ACTIVITIES

TeamMate

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

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

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

TeamMate will incorporate OIG standard audit processes and procedures when fully implemented. The TeamMate vendor provided training in February and the development of our TeamMate procedures is on-going.

INTERNSHIP PROGRAM

OIG welcomes undergraduate and law school interns during the fall, spring and summer semesters. There is also a program for local high schools – in fact two of our administrative team came from this program and are now permanent employees. Most of these students take their internships for credit. Our college interns come from schools across the country. 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.

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.

During this reporting period, the Office monitored legislative activities affecting the activities of the OIG and the FCC. This office has also put into place new requirements as per the IG Reform Act of 2008. Historically for this Office, the AIG for Investigations ("AIGI") has also been counsel to the IG. Separate legal counsel to the IG was an important part of the IG Reform Act. The IG also has special counsel either for a specific purpose (for example, Special Counsel on USF), or for other tasks that require legal analysis.

The Office also monitored legislation and legislatively-related proposals that may, directly or indirectly, affect the ability of IGs to function independently and objectively as mandated by the IG Act. We reviewed Executive Order 13520 "Reducing Improper Payments," dated November 20, 2009 and the related implementing guidance to date, in order to understand our role in the order. We are taking measures in anticipation of the specific, detailed, and new responsibilities assigned to this office by the Office of Management and Budget as part of that role. What is clear so far, is that this Office may have additional responsibilities to effectuate President Obama's goals set forth in the Executive Order. These responsibilities, while completely consistent with the overall mission of this Office, may still entail significant additional work, making even more pressing the staffing needs outlined above. In addition to legislative developments, the OIG continuously monitors FCC policy development and provides input as appropriate.

OIG has also dedicated its Senior Audit Advisor to study and evaluate the FCC's National Broadband Plan. This will be 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.

Further, this Office was charged with conducting an analysis of the National Exchange Carrier Association by Congress (contained in appropriation language in a House of Representatives Conference Report, H.R. 3288). This project is ongoing.



OIG Administrative Staff (left to right) Kevin Beynum, Jessica Smith and Laura Benitez



**Management Analyst
Carolyn Abraham**



**AIG for USF Oversight
Jerry Grahe**

AUDIT ACTIVITIES

FINANCIAL AUDITS

PERFORMANCE AUDITS

UNIVERSAL SERVICE FUND

OVERSIGHT



USF Audit team members (left to right) Troy Green,
Beth Engelmann and Rachel Stein

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 Federal Communications Commission's Fiscal Year 2009 Consolidated Financial Statements

In accordance with the Accountability of Tax Dollars Act of 2002, the FCC prepared consolidated financial statements for the 2009 fiscal year in accordance with Office of Management and Budget ("OMB") Circular A-136, Financial Reporting Requirements, and subjected them to audit. The 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 government auditing standards issued by the Comptroller General of the United States ("GAGAS"). Under the direction of the Office, KPMG LLP ("KPMG"), an independent certified public accounting firm, performed the audit of FCC's FY 2009 consolidated financial statements. The audit was 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.

As a result of the 2009 financial statement audit, KPMG issued an independent auditor's report with an unqualified opinion on the FCC's financial statements, a report on internal controls over financial reporting, and a report on compliance and other matters dated November 12, 2009. KPMG reported that the FCC's financial statements were fairly presented in all material respects in conformity with U.S. generally accepted accounting principles.

The report on internal controls over financial reporting identified two control weaknesses that were considered significant deficiencies. A "significant deficiency" is a deficiency or combination of deficiencies in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

AUDIT ACTIVITIES

The first significant deficiency involved the FCC's financial reporting process regarding inadequate financial system integration and a manual reporting process. The second significant deficiency involved the FCC's information technology controls. The auditors identified deficiencies in the FCC's control environment, risk assessment, control activities, and monitoring as it relates to securing the FCC's information technology infrastructure. KPMG also noted that the information technology weaknesses may impact the FCC's ability to comply with OMB's internal control objectives for financial reporting. KPMG did not consider any of the deficiencies identified during the audit to be material weaknesses. A "material weakness" is defined as a significant deficiency or combination of deficiencies in internal controls such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

The Commission is responsible for complying with laws, regulations, and provisions of contracts applicable to the FCC. To obtain reasonable assurance as to whether the Commission's financial statements are free of material misstatement, KPMG performed tests of the Commission's compliance with provisions of laws, regulations, and contracts that could have a direct and material effect on the determination of financial statement amounts. The results of this testing identified that the FCC was not in compliance with the Federal Managers Financial Integrity Act because the current financial systems and processes do not achieve the financial system integration standards set by OMB Circular A-127.

In addition to the FCC's consolidated financial statements, as required by Chapter 4700 of the U.S. Department of the Treasury's Treasury Financial Manual, the FCC prepared special-purpose financial statements for the purpose of providing financial information to the U.S. Department of the Treasury and the GAO to use in preparing and auditing the Financial Report of the U.S. Government. Under the oversight of the OIG, KPMG performed an audit of the special purpose financial statements in accordance with GAGAS and OMB Bulletin 07-04 as amended. KPMG issued an unqualified opinion on the FCC's Special Purpose Financial Statements. The auditor's report disclosed no significant deficiencies in the internal controls over the financial reporting process for the special purpose statements and no instances of noncompliance.

Management and Performance Challenges

On October 16, 2009, we issued our annual statement summarizing OIG's assessment of the most serious management challenges facing the FCC in FY 2010 and beyond. We identified the Universal Service Fund, the Telecommunications Relay Service Fund, and the need to modernize the FCC's

AUDIT ACTIVITIES

information technology and financial management infrastructures as significant management challenges. Management concurred with the challenges that we identified and included our letter and its response in the FCC's Fiscal Year 2009 Annual Performance Report, released November 16, 2009.

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 internal contractual administration.

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

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 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 2009 FISMA evaluation.

During this semiannual period, KPMG completed its evaluation and identified several new findings. Each finding comprised multiple issues. FCC management was provided with these findings and the related recommendations. Management provided their comments and stated that they generally concurred with the recommendations.

AUDIT ACTIVITIES

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

OIG contracted for an independent audit of the FCC's compliance with the Financial Systems Integration Office ("FISO") (formerly Joint Financial Management Improvement Program) Property Management Systems . The requirements are stated in publication number JFMIP-SR-00-04, dated October 2000, titled "Property Management Systems Requirements."

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 are 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 is in progress.

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

OIG contracted for an independent audit of the FCC's compliance with the FISO Federal Financial Management System Requirements for Managerial Cost Accounting. The requirements are stated in publication number FFMSR-8, dated February 1998, and titled "System Requirements for Managerial Cost Accounting."

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

The objectives of the audit are to:

AUDIT ACTIVITIES

- determine whether the FCC’s managerial cost accounting system meets FISO requirements; and
- evaluate the design and implementation of internal controls related to the FCC’s managerial cost accounting.

This audit is in progress.

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

OIG contracted for an independent performance audit of the FCC contracts funded by the American Recovery and Reinvestment Act of 2009 (“ARRA”) (P.L. 111-5) and related internal controls.

The ARRA provided funds to the FCC to assist Americans in their transition to digital TV. The ARRA specifies two programs for which the FCC has responsibilities: (1) the Digital-To-Analog Converter Box Program (education and outreach); and (2) the Broadband Technology Opportunities Program and which may receive ARRA funds. Under the Act the National Telecommunications and Information Administration of the Department of Commerce may transfer up to \$90 million in funding to the FCC for consumer education and outreach. Initiatives that were funded included media buys, walk-in assistance centers, in-home converter box assistance, call center support services, upgrades to improve the Commission’s Digital Television (“DTV”) website, printing DTV publications and translating those publications to benefit non-English speaking communities, and travel for staff providing local support, particularly in markets with a significant percentage of households receiving television signals over the air .

The purpose of this audit was to determine if contracts funded by the ARRA were awarded and administered in compliance with provisions of the ARRA.

The specific objectives of the audit were to:

- determine whether contracts funded by the Act were awarded and administered (to include pre-solicitation, solicitation, evaluation, award, and administration) in accordance with provisions of the ARRA, the FAR, and FCC policies, procedures and provisions; and
- evaluate the design and implementation of internal controls related to the award and administration of contracts funded by the ARRA.

AUDIT ACTIVITIES

The audit is complete and OIG issued the audit report on March 31, 2010. Following are its findings and recommendations.

The results of OIG's audit testing show that overall the FCC Contracting and Purchasing Center ("CPC") was generally compliant with ARRA requirements, FCC policies and procedures and Federal Acquisition Laws and Regulations. However, nine reportable findings were identified. These findings represent internal control weaknesses in the CPC's procurement and contracting processes. Specifically, improvements are needed in the following areas: (1) documentation of internal controls, (2) documentation of personnel independence, (3) contracting officer technical representative ("COTR") training, (4) Letter of Appointment execution, (5) debarment search documentation, (6) monitoring of vendor performance, (7) contract file documentation, (8) COTR handbook update and (9) prior audit follow-up procedures.

Audit of the Federal Communications Commission's Purchase and Travel Card Program

We have contracted for an independent performance audit of FCC travel and purchase card transactions. This audit will cover purchase and travel card transactions, including those using funds provided by the ARRA to support ARRA-related projects. Agencies are required to implement controls for expenditures of ARRA funds and perform audits to deter or prevent wasteful spending, poor grant or contract management, and other abuses from occurring. The audit will include an examination of FY 2009 purchase and travel card transactions made using ARRA funds, as well as a review of related internal controls.

The objectives of the audit of the purchase and travel card program are to:

- evaluate the design and implementation of internal controls;
- determine if transactions were properly authorized, adequately documented, and used for an appropriate, legitimate government purposes; and
- determine if the 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*.

This audit is in progress.

AUDIT ACTIVITIES

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

OIG contracted for an independent audit of the FCC's Electronic Travel System (e-Travel) and the related internal controls. Federal travel regulations require that government agencies, with few exceptions, to deploy and use electronic travel systems to manage official temporary duty travel. This audit will determine if the FCC's electronic system has been fully implemented and is being used effectively and efficiently for managing FCC travel. The audit will also determine whether the FCC is realizing the benefits of its electronic system such as streamlined document processing; faster payments; and more timely and accurate travel claims. Additionally, the audit will evaluate the design and implementation of internal controls for the electronic travel system.

This audit is in progress.

Inspection of the Federal Communications Commission'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. Additionally, OIG determined whether 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 is in progress.

AUDIT ACTIVITIES

UNIVERSAL SERVICE FUND OVERSIGHT

To provide oversight for the universal service fund (“USF”), we have developed a comprehensive, risk assessment based audit approach considering the scope of the program, involved parties and their respective roles, our experience, other available information and available resources. In this semiannual report, we describe our accomplishments and current audit 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.

- High Cost support ensures that consumers in all regions of the nation have access to and pay rates for telecommunications services that are reasonably comparable to those services 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 telecommu-
nications 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 crea-
tion 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. This includes providers 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.

AUDIT ACTIVITIES

High Cost Program

During this period, OIG issued eight attestation examination draft reports. These audits are part of the Improper Payment Information Act (“IPIA”) attestation audit program. The companies now have the opportunity to provide comments to the report findings. The final reports will be issued during the next reporting period.

During this period, OIG initiated a survey of the FCC Wireline Competition Bureau’s responsibilities with regard to the USF High Cost programs. The goal of this project is to survey the various activities and responsibilities of WCB that directly or indirectly impact USF High Cost programs. Attention will be focused on promoting efficiency and effectiveness in the High Cost Programs as well as preventing fraud, waste and abuse of the program’s funds. The survey is in progress at this time.

Also during this period, OIG initiated a congressionally mandated review of the National Exchange Carrier Association, Inc. (“NECA”). The review shall examine whether, and to what extent, NECA is acting in compliance with the Communications Act of 1934, as amended, and the regulations promulgated thereunder, and whether, and to what extent, the FCC has delegated authority to NECA consistent with the same act. The review is in progress at this time.

Schools and Libraries Program

OIG issued a draft attestation examination report during the reporting period related to a large school district in the State of California. This audit was part of the IPIA attestation audit program. FCC management and the school system now have the opportunity to provide comments on the report findings. The final report will be issued during the next reporting period.

Low Income Program

During this period OIG issued a final audit report based on an OIG initiated audit of a company that received Low Income program support. The examination found that the company materially complied with the FCC’s Rules, Regulations and Orders related to information reported by the company on the FCC Form 497 for the fiscal year ended September 30, 2005.

However, the report noted the following three weaknesses in internal controls. The company:

AUDIT ACTIVITIES

(1) charged each subscriber a monthly Federal USF charge but could not document or explain how it was computed; (2) did not have adequate policies and procedures to ensure compliance with the FCC's low income program rules; and (3) did not consistently follow its own procedures for documenting proof of subscriber eligibility (however it did comply with minimum procedures required by FCC rules). Our report included three recommendations which have already been implemented.

Also during this period, OIG initiated 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, waster, and abuse in the federal universal service program. The audit is in progress at this time.

Contributors

On February 4, 2010, OIG issued two final reports - one attestation examination and one performance audit on compliance with FCC rules regarding contributions to USF. The attestation examination disclosed that the company in question: (1) filed a separate affiliate FCC Form 499-A for the long distance portion of its telephone business to lower total USF contributions; and (2) certified the FCC Form 499-A without verifying the work of a consultant. The performance audit disclosed three findings in which the company did not comply with the FCC rules regarding its FCC Form 499-A. We found that the company: (1) double-counted USF surcharge revenues; (2) understated uncollectible revenues and misclassified some non-telecommunications revenues; and (3) needs to strengthen internal control weaknesses that contributed to several errors found.

During this period, OIG issued three additional performance audit draft reports. The companies now have the opportunity to provide comments to the report findings. Final reports will be issued during the next reporting period.

Audits of Universal Service Administrative Company Committees

OIG contracted for two audits of USAC Committees: (1) the Schools and Libraries Committee and, (2) the High Cost and Low Income Committee. These committees oversee the administration of USF support mechanisms. The committees are responsible for such actions as projecting demand for the support mechanisms, administering the application process, and performing audits of support beneficiaries. Our audits are designed to test the effectiveness with which the USAC committees have met their responsibilities and to identify opportunities for improvement. The objectives of this audit

AUDIT ACTIVITIES

include assessing the management controls that have been established by the committees.

These audits were released in draft to USAC for management and comment on December 18, 2009 for review and comment. We have received USAC's comments on the draft report and anticipate issuing the final reports in the next reporting period.

Support to Investigations

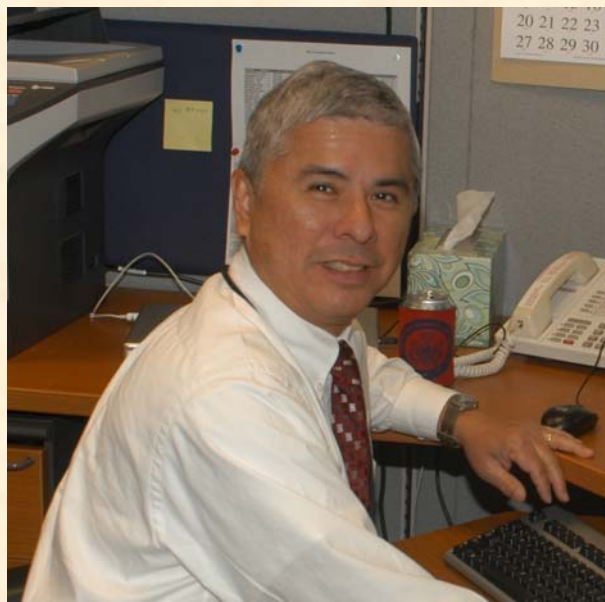
During this reporting period the USF audit team provided support to OIG's investigations unit. The type of support provided included:

- review of documents received from the Department of Justice
- meeting with investigators to assess additional information requests
- providing assistance on site visits
- contacting targets for additional information
- preparation and analysis of spreadsheets and memoranda for reviewed items

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
- providing analysis of telecommunication provider data
- reviewing documents

AIG for Audit
Bill Garay



INVESTIGATIONS
ACTIVITY DURING
THIS PERIOD
MODERNIZING FCC OIG
INVESTIGATIONS
SIGNIFICANT INVESTIGATIVE
CASE SUMMARIES
OIG HOTLINE



Acting AIG for Investigations Carla Conover

INVESTIGATIONS

FCC OIG investigations are initiated for numerous reasons. Many are based on allegations of employee misbehavior, violations of federal law or FCC regulations or other forms of fraud, waste, abuse, or criminal activity. These investigations often address allegations of fraud in FCC programs, such as the federal Universal Service programs, or other criminal activity or misconduct within the FCC or its programs. We also receive complaints regarding the manner in which the FCC executes its programs, how the FCC handles its operations administratively, and how the FCC conducts its oversight responsibilities.

Allegations come from all sources. FCC managers, employees, contractors, and other stakeholders often contact the OIG directly with concerns. Individuals call or e-mail the OIG Hotline, or send complaints through the United States Postal Service. OIG's Hotline is continuously monitored, and urgent complaints are forwarded to the appropriate OIG staff member soon after it is received. The reply times for complaints or allegations that require a response is constantly evaluated, and our response time during this reporting period has been dramatically reduced vis-à-vis prior reporting periods. OIG has made this a special priority, and will continue to do so.

Allegations can be, and frequently are, made anonymously. Anonymous allegations are treated the same as any other allegation. For individuals who want to come in-person, often they request that OIG meet with them at odd hours or at locations where they are more comfortable in relaying information. Our Office to date has agreed to every accommodation as we recognize what a critical source of information this provides to every IG office. Other government agencies, federal, state and local, including the Government Accountability Office, the Office of Special Counsel, and congressional and senatorial offices, refer matters to the OIG for potential investigation. In addition, investigations may develop from OIG audits or inspections that discover evidence or indications of fraud, waste, abuse, misconduct, corruption, or mismanagement of FCC programs or operational segments.

After receiving an allegation of fraud, waste or abuse, the AIGI or one of her staff will conduct a preliminary review of the matter to determine if an investigation or referral is warranted. Sometimes serious allegations may merit attention, but be outside the jurisdiction of the OIG. These allegations would be referred to the appropriate entity, usually another office or bureau in the FCC or another federal or law enforcement agency, for review and response to the complainant. As much as possible, the OIG continues to be involved and serve as a facilitator for complaints that are outside the jurisdiction of this office. The OIG, like most government offices, has an ever-increasing volume of work and dedicated but limited resources. Therefore, allegations of matters within the jurisdiction of the OIG are reviewed for assignment and priority in a "triage" method. Matters that have the

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potential to significantly impact federal funds, important FCC missions or programs, or the basic integrity and working of the agency receive the highest priority for investigation and assignment of resources.

The OIG works not only on a large number of investigations, but a large variety of investigations. We deal with complex cyber crime investigations, cases involving large criminal conspiracies, and on matters throughout the United States and its territories. These complex and wide-ranging cases often require substantial investigative expertise and resources that the 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, including OIG offices of other federal agencies. For example, in the largest investigation this Office has ever conducted, FCC OIG worked closely with and relied upon the abilities of the U.S. Department of Justice, the Federal Bureau of Investigation, the United States Postal Service and the Securities and Exchange Commission. This cooperative and coordinated effort saved this Office valuable time and expense and led to the indictments of 26 individuals in nine states – an unheard of number for this Office.

The AIGI and her staff also work with other law enforcement agencies, federal and state, to support both criminal and civil investigations. Many of these investigations and prosecutions involve fraud pertaining to the federal Universal Service Program. The E-Rate Program has been a prime target for fraud but has also been the focus of joint and coordinated investigation and prosecution efforts by the Department of Justice, the Department of Education, the Department of the Interior, and the FCC and its OIG. Those efforts have resulted in a history of successful prosecutions and indictments, and of restitution to the USF.

ACTIVITY DURING THIS PERIOD

At the outset of this reporting period, ninety four (94) cases were pending. Over the last six months, thirty-seven (37) cases have been closed and twenty-four (24) opened. As a consequence, a total of eighty-one (81) cases are pending. These numbers do not include preliminary reviews of allegations, from the Hotline or other sources, or related minor evidence analysis.

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Statistics

Cases pending as of September 30, 2008	94
New Cases	24
Cases Closed	37
Cases pending as of April 1, 2010	81

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 recently acquired enhanced electronic forensic tools and a new electronic case management system. 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 INVESTIGATIVE 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.

VRS Fraud Investigation

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

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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 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 free to the caller (just like in TRS). VRS providers are compensated for their reasonable 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 staff traveled nationwide interviewing witnesses, and even had witnesses flown into Washington, DC to meet at FCC headquarters. Because most witnesses were deaf or hard of hearing, OIG had to make arrangements with contractors and individuals at the FCC who could converse in ASL. With the 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

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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.

The indictments charge owners and employees of the following seven companies:

- Viable Communications, Inc., of Rockville, Md.;
- Master Communications LLC, of Las Vegas;
- KL Communications LLC, of Phoenix;
- Mascom LLC, of Austin, Tx.;
- Deaf and Hard-of-Hearing Interpreting Services, Inc. (“DHIS”), of New York and New Jersey;
- Innovative Communications Services for the Deaf Corp. (“ICSD”), of Miami Lakes, Fla.; and
- Deaf Studio 29, of Huntington Beach, Calif.

The indictments were filed in the U.S. District Court for the District of New Jersey, and allege Conspiracy to Defraud the United States and to Cause the Submission of False Claims, in violation of 18 U.S.C. § 371; Submission of False Claims, in violation of 18 U.S.C. §§ 287 and 2; Conspiracy to Commit Mail Fraud, in violation of 18 U.S.C. § 1349; and Mail Fraud, in violations of 18 U.S.C. §§ 1341 and 2. They also include a claim for Criminal Forfeiture under 18 U.S.C. § 982.

On January 13, 2010, defendants Anthony Mowl, the former assistant vice president of business development for Viable Communications, Inc. (“Viable”) and Donald Tropp, the former human resources manager for Viable, pleaded guilty to engaging in a conspiracy to defraud the Interstate TRS Fund of more between \$2.5 million and \$7 million. At sentencing, both Mowl and Tropp face a maximum sentence of 20 years in prison, a fine of \$250,000, as well as mandatory restitution and forfeiture.

On February 18, 2010, the co-owners of DHIS, Irma Azrelyant and Joshua Finkle, pleaded guilty to one count of conspiracy to commit mail fraud in an amount between \$7 million and \$20 million.

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At sentencing, each defendant faces a maximum penalty of 20 years in prison, a fine of \$250,000, and mandatory restitution.

On March 4 and 5, 2010, four former owners and employees of three video relay service companies pleaded guilty to defrauding the Interstate TRS Fund. Kim Hawkins, an owner of Nevada-based Master Communications, Arizona-based KL Communications, and Texas-based Mascom LLC, admitted to conspiring with others to pay individuals to make fraudulent VRS phone calls and to process fraudulent VRS phone calls that were billed to the FCC through VRS provider Viable Communications, Inc. Hawkins admitted to generating or processing thousands of illegitimate VRS minutes that were billed to the FCC. Hawkins admitted that her conduct led to a total loss of between \$2.5 and \$7 million. Larry Berke, Hawkins' partner in KL Communications and an employee of Master Communications entered a similar plea and admitted to defrauding of the FCC of between \$2.5 and \$7 million. Alfia Iskandarova, a former video interpreter ("VI") for New York and New Jersey-based Deaf and Hard of Hearing Interpreting Services, Inc. ("DHIS"), admitted to defrauding the FCC of between \$2.5 and \$7 million by generating and processing illegitimate VRS phone calls. Robert Rubeck, a consultant to Viable Communications, Inc., admitted to defrauding the FCC's VRS program to a total loss of between \$1 and \$2.5 million. At sentencing, each of these defendants faces a maximum sentence of 20 years in prison, a fine of \$250,000, as well as mandatory restitution and forfeiture.

On March 9, 2010, the co-owners of ICSD, Yosbel Buscaron and Lazaro Fernandez, and Natan Zfati, a former VI at DHIS, admitted to defrauding the FCC of between \$2.5 and \$7 million by generating and processing illegitimate VRS phone calls and pleaded guilty to one count of conspiracy to commit mail fraud. At sentencing, each of these defendants faces a maximum sentence of 20 years in prison, a \$250,000 fine and mandatory restitution and forfeiture. As of the close of this reporting period, these pleas bring the number of guilty pleas to 11, with guilty pleas from defendants in five out of the six indictments. Additional guilty pleas are expected.

In a News Release accompanying the November 19, 2009 unsealing of the indictments, FCC Chief of Staff Edward Lazarus acknowledged the work and support of DOJ, the FBI and the United States Postal Service, stating that we "could not have effectively pursued the indictments . . . without a terrific collaboration across many agencies." He went on to say that while this was a tragic event, it was also an opportunity to work on and correct the problems so that something like this could not happen again.

Before the indictments were unsealed, the Commission had begun to institute a VRS Reform effort

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that is on-going. OIG has offered advice to the Chairman's Office in this regard, consistent with our Mission Statement "[t]o be an agent of positive change, striving for continuous improvement in FCC's management and program operations." The VRS Reform effort included a December 17, 2009 workshop that included deaf and hard of hearing consumer advocates and academicians. The workshop gathered information on three key areas: (1) the most efficient way to deliver VRS; (2) a fair, efficient and transparent compensation methodology for VRS; and (3) mechanisms for combating waste, fraud and abuse.

On February 25, 2010, CGB issued a Declaratory Ruling confirming, among other matters, that: (1) calls made by or to employees of VRS providers and their subcontractors are not eligible for compensation from the TRS Fund on a per minute basis; but the cost of these calls are compensable as a business expense through the Commission's rate-setting process; and (2) VRS calls made or arranged to generate per-minute fees for providers are not and have never been compensable from the TRS Fund.

On March 9, 2010, the Commission announced the signing of an agreement with Purple Communications ("Purple"), a provider of TRS, including VRS, in which Purple agreed to repay over \$18 million for VRS compensation inappropriately received by the company. Under the agreement, the funds will be repaid to the TRS Fund administrator and Purple will continue to reimburse Purple for legitimate relay services provided by Purple month by month. While the agreement addresses Purple's debt obligations to the FCC, it does not affect any possible government investigations, including FCC OIG investigations, into Purple's business practices.

The speed at which the operations were conducted undoubtedly saved the TRS Fund millions of dollars. By any standard, coordinating such a massive criminal investigation between so many agencies, with all the unique and concomitant complexities involved, speaks well of intra-governmental efforts and policies. Further, the expenditures from the TRS Fund for VRS usage has dropped dramatically, saving hundreds of millions more in a single 12 month period. OIG is of the opinion that this is the result of these investigations and the actions taken by the FCC. The investigations continue, and the first trial is currently set to commence in June of this year.

Investigations into Fraud in FCC Contracts Awarded with Recovery Act Funds

American Recovery and Reinvestment Act of 2009 ("Recovery Act") funds were used to award over 80 contracts to assist the FCC with its Digital Television Transition outreach efforts to assist the

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public and especially broadcast television viewers as the country's broadcast station met the 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. These contracts were awarded to over 40 vendors operating throughout the United States. As of December 31, 2009, the Commission had obligated over \$69 million of the Recovery Act funds for Digital Television outreach and had paid out over \$57.7 million.

The FCC OIG received allegations of fraud and misconduct in the FCC's DTV Roll-out program from a variety of sources, including the FCC's Office of Managing Director ("OMD"). Resulting OIG investigations have revealed indications of fraud, but also of 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 the end of the reporting period, FCC OIG has 20 active Recovery Act investigations.

Although most of these investigations are ongoing, the FCC OIG on December 18, 2009 sent a referral to the Managing Director so that OMD staff could take immediate corrective or preventative action relating to the contract performance and reporting issues OIG saw in its investigations as OMD closes out DTV Roll-out contracts. The FCC OIG referral also called OMD's attention to apparent systemic failure to comply with FAR 52.219-14 Limitations on Subcontracting in the small business set-aside contracts. The OIG referral also informed OMD that OIG investigations have found that there is an apparent lack of enforcement of the requirements under FAR 52.204.11 American Recovery and Reinvestment Act, including the required timely contractor reporting at <http://www.FederalReporting.gov>. The OIG referral also strongly recommended that OMD consider implementing additional control procedures such as reviewing prior invoices and payments for errors or other problems before closing any DTV-related contract.

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Investigations into Fraud in the Federal Universal Service Program

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

AT&T Missouri

On October 13, 2009, a unit of AT&T, AT&T Missouri (formerly known as Southwestern Bell Telephone L.P.), agreed to pay the United States \$1.4 million as part of a settlement of a civil lawsuit alleging that the company violated the False Claims Act in connection with the FCC's universal service program. Investigators in the FCC OIG supported DoJ's Civil Division in handling the investigation and settlement of this matter.

The United States contended that AT&T Missouri provided false information to E-Rate administrators and otherwise violated the program's requirements by engaging in non-competitive bidding practices for E-Rate contracts. The United States further alleged that AT&T Missouri employees colluded with officials in the Kansas City, Missouri, School District to award contracts to the company, extended contracts in violation of E-Rate rules and provided meals and other inducements to school district employees. The United States previously filed suit against and settled with the Kansas City, Missouri, School District.

These allegations arose from a False Claims Act lawsuit filed in Missouri federal court by American Fiber Systems Inc., which submitted an unsuccessful bid to the Kansas City, Missouri, School District for the E-Rate contracts that were awarded to AT&T Missouri. The False Claims Act allows private parties to bring fraud claims on behalf of the United States and to share in the proceeds of any recovery. American Fiber Systems Inc.'s share of the settlement will amount to \$195,000.

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Gloria Harper and Tyrone Pipkin

During the reporting period, Illinois state charges followed a federal investigation supported by FCC OIG that had resulted in two companies being sentenced in September 2008 relating to fraud in projects funded by the FCC's universal service program. That investigation revealed that companies owned by Gloria Harper and Tyrone Pipkin over-billed the Twin Buttes School District in North Dakota for technology services funded by the FCC's program. On October 16, 2009, Harper and Pipkin pleaded guilty to one count of Attempted Forgery, a Class "A" Misdemeanor in Illinois state court. They were originally charged in March 2009 with 18 counts of forgery each, stemming from falsification of a North Dakota school official's name on company invoices.

Former school board member Harper, of North Chicago, and Pipkin, a North Chicago district employee from Gurnee, co-owned Global Networking Technology between January 2000 and December 2006. During that period, Harper also owned Computer Training and Associates, Inc. As noted above, the United States sued the two companies owned by Harper and Pipkin in federal court. The government was granted restitution in the amount of \$241,000.

Leonard Douglas LaDuron, Benjamin Rowner and Jay H. Soled

The FCC OIG assisted DOJ's Antitrust Division, the FBI, the Department of Housing and Urban Development ("HUD") OIG, and the U.S. Attorney's Office for the District of Kansas in conducting an investigation into a conspiracy, which began in 1999 and ran at least until 2003, affecting at least 10 schools located across the country. Leonard Douglas LaDuron, then-owner and president of Serious ISP Inc., Myco Technologies Inc. and Elephantine Corporation, Kansas based computer service companies, with Benjamin Rowner and Jay H. Soled, then-owners of DeltaNet Inc., a New Jersey-based computer services provider, steered contracts to their respective companies and devised a scheme to defraud the FCC's universal service program by submitting false statements and concealing material facts. In some instances, these false statements were submitted by wire transmission, e-mail and U.S. mail.

On December 8, 2009, LaDuron was sentenced to 57 months in prison for his role in a conspiracy to defraud the federal universal service program and for making a false statement to the HUD. He also was ordered by Chief Judge Kathryn H. Vratil in the U.S. District Court in Kansas City, Kansas, to pay \$238,607 in restitution. LaDuron pleaded guilty on June 29, 2009, to one count of conspiracy and one count of making a false statement. Based upon his guilty plea, the FCC has issued a notice

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of suspension to LaDuron and has commenced proceedings to debar him from participation in the universal service program.

Judy Green Appeal

On January 22, 2010, the United States Court of Appeals for the Ninth Circuit affirmed the conviction and sentence of Judy Green.

Green was a former consultant and sales representative with Video Network Communications Inc. and co-owner of ADJ Consultants Inc. Green and those two companies were among six individuals and six companies indicted by DOJ in April 2005 for schemes to defraud the FCC's universal service program in connection with projects at schools in seven states: Arkansas, California, Michigan, New York, Pennsylvania, South Carolina and Wisconsin. In 2007, Green was convicted by a federal jury in San Francisco on all charges brought against her in a 22-count indictment involving fraud, collusion, aiding and abetting, and conspiracy to commit wire and mail fraud. In March 2008, the district court sentenced her to a ninety-month term of imprisonment.

Houston Independent School District Settlement

In March 2010, the Houston Independent School District ("HISD") agreed to relinquish millions of dollars in requests for federal funds and to pay \$850,000 to settle a civil suit alleging that the school district filed false claims to get federal funds from the Schools and Libraries component of the FCC's universal service program. The resolution of this case resulted from a collaborative federal investigation involving DOJ's Civil Division and the U.S. Attorney's Office for the Northern District of Texas.

The United States contended that HISD provided false information in order to obtain funds from the federal universal service program and otherwise violated the program's requirements by engaging in non-competitive bidding practices for contracts to be funded by the program. The United States further alleged that school district officials received gratuities from technology vendors, including trips, meals, and loans. As part of the settlement, the school district also entered into a compliance agreement with the FCC regarding HISD internal controls, monitoring and audit requirements to ensure HISD's future participation in the universal service program complied fully with FCC rules.

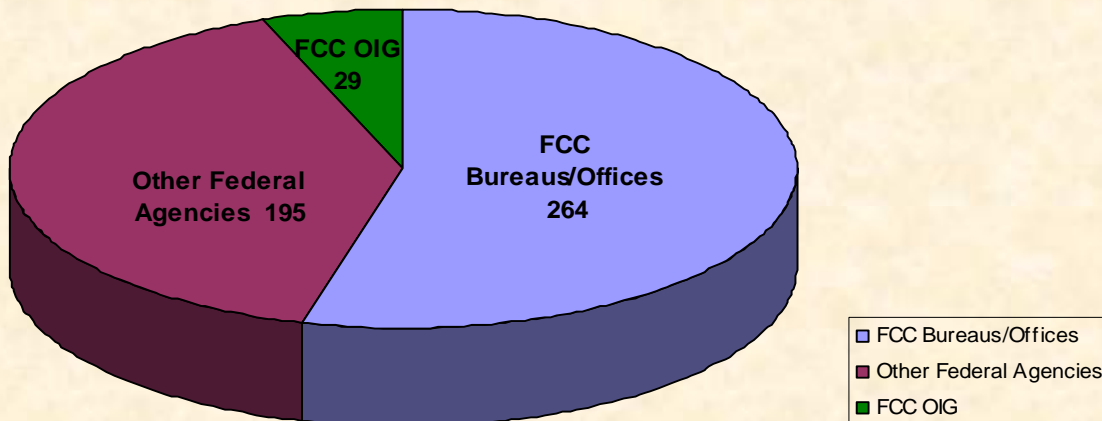
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OIG HOTLINE

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 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 488 Hotline contacts, which resulted in OIG taking action on 29 of these. The remaining calls were forwarded to the other FCC bureaus and offices, primarily the FCC Consumer Center (264 calls) and other federal agencies, primarily the Federal Trade Commission (195 calls).

OIG Hotline Calls Record
October 1, 2009 - March 31, 2010



USF Special Counsel
Kathleen O'Reilly (right)
with Gloria Thomas,
FCC Librarian (left)



Investigative Attorneys
Jay Keithley and
Sharon Diskin

Investigative Attorney
Olga Brand



REPORTING REQUIREMENTS OF THE INSPECTOR GENERAL ACT

IG ACT REPORTING REQUIREMENTS

TABLE I: OIG REPORTS WITH QUESTIONED COST

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

TABLE III: : OIG REPORTS ISSUED BEFORE THE REPORTING PERIOD WITH NO MANAGEMENT DECISION AT THE END OF THE REPORTING PERIOD



AIG for
Policy & Planning
Tom Cline

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 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.

REPORTING REQUIREMENTS

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.

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

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

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

REPORTING REQUIREMENTS

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.

The required information can be found at Table III to this report.

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

No management decisions fall within this category.

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

No management decisions fall within this category.

13. Information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.

No reports with this information have been issued during this reporting period.

REPORTING REQUIREMENTS

Table I: OIG Reports With Questioned Costs

Inspector General Reports With Questioned Costs	Number of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	-	-	-
B. Which were issued during the reporting period.	-	-	-
C. For which a management decision was made during the reporting period.	-	-	-
(i) Dollar value of disallowed costs	-	-	-
(ii) Dollar value of costs not disallowed	-	-	-
D. For which no management decision has been made by the end of the reporting period.	-	-	-
E. For which no management decision was made within six months of issuance	-	-	-

REPORTING REQUIREMENTS

Table II: OIG Reports With Recommendations That Funds Be Put To Better Use		
Inspector General Reports With Recommendations That Funds Be Put To Better Use	Number of Reports	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	-	-
B. Which were issued during the reporting period.	-	-
C. For which a management decision was made during the reporting period.	-	-
(i) Dollar value of disallowed costs	-	-
(ii) Dollar value of costs not disallowed	-	-
D. For which no management decision has been made by the end of the reporting period.	-	-
E. For which no management decision was made within six months of issuance	-	-

REPORTING REQUIREMENTS

Table III: OIG Reports Issued Before the Reporting Period With No Management Decision at the End of the Reporting Period			
Title and Date of Report	Summary of Report	Explanation for Delayed Management Response	Desired Timetable for Closure
Audit Finding Notification – Lack of Adequate Facility Maintenance in the Anchorage Field Office, 9/30/04	During field visits conducted to support the FY 2004 financial statement audit, auditors noted poor maintenance at the FCC Anchorage AK Field Office, to include electricity code violations. We wrote an audit notification letter to FCC management, recommending required maintenance.	The FCC is working with GSA to excess the Anchorage property and relocate the staff to leased space.	Estimated completion date of June 2010.
Audit of the Auctions Payment Collection Process, 9/18/07	Assessed manual and automated controls over the auctions payment collection process and validated accuracy of a sample of payments and refunds. Control deficiencies were cited with recommendations for improvements.	The findings will be resolved with implementation of the FCC's new financial management system.	October 2010.
Controls over the Universal Licensing System, 9/28/07	Assessed the effectiveness of Universal Licensing System controls that ensured the information was accurate, complete and secure. Deficiencies in control effectiveness were noted with recommendations for improvements.	The corrective action on the remaining open recommendation, a new interagency service agreement between the Commission and another federal agency, will resolve the issue.	The Commission is expecting to receive the completed ISA in September 2010.
Review of Processes for Filing Public Comments, Consumer Inquiries, and Complaints, 9/24/08	Assessed the effectiveness of controls over the process of filing public comments, consumer inquiries, and complaints. Recommendations were cited related to process integration and reliability with recommendations for improvements.	One recommendation remains open due to technical and cost related issues.	Unknown at this time.
Assessment of Information Technology (IT) Project Management, 9/30/08	Assessed FCC's IT program management to baseline current practices and identify areas for improvement. Recommendations for improvements were cited.	Corrective actions for this audit have been drafted and will be submitted to OIG soon.	Estimated May 2010.



USF Statistician
Jay Bennett (left)

Sophila Jones, Deputy Audit
Director for Financial Audits
(below)





FCC OIG Staff



**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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