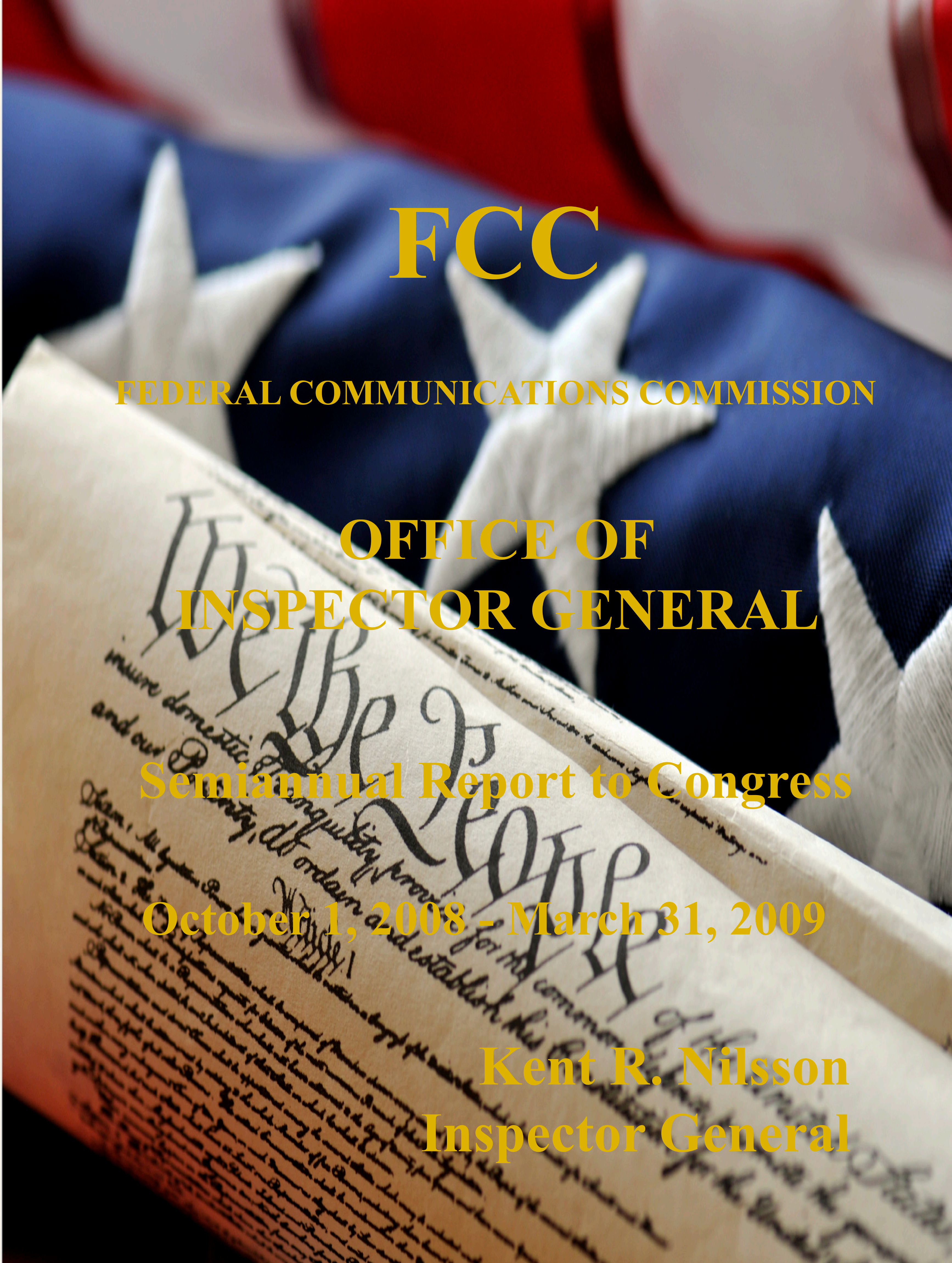

FCC

FEDERAL COMMUNICATIONS COMMISSION

OFFICE OF INSPECTOR GENERAL

Semiannual Report to Congress

October 1, 2008 - March 31, 2009

Kent R. Nilsson
Inspector General

The Federal Communications Commission
(left to right)
Jonathan S. Adelstein, Commissioner; Michael J. Copps,
Acting Chairman; Robert M. McDowell, Commissioner

MEMORANDUM

OFFICE OF INSPECTOR GENERAL

DATE: April 30, 2009

TO: Acting Chairman, Federal Communications Commission

REPLY TO
ATTN OF: Inspector General

SUBJECT: Semiannual Report to Congress

In accordance with Section 5 of the Inspector General Act of 1978, as amended, 5 U.S.C. App. § 5, I have attached our report summarizing the activities and accomplishments of the Office of the Inspector General ("OIG") during the six-month period ending March 31, 2009. In accordance with Section 5(b) of that Act, it would be appreciated if this report, along with any associated report that you prepare as Acting 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 most intensively 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.

Information developed during this reporting period, including the initial results from the second round of USF audits, continues to indicate that much closer scrutiny of Universal Service Administrative Company's ("USAC's") management, processes, controls and self-improvement efforts is needed. Closer co-ordination by USAC with the FCC's Managing Director and the Chief of the FCC's Wireline Competition Bureau should improve remediation and transparency and facilitate further improvements in the administration of USAC's programs. Similarly, closer co-ordination by National Exchange Carrier Association, Inc.'s management with the FCC's Managing Director and with the Chief of the Consumer and Governmental Affairs Bureau should improve the operation of the Commission's Telecommunications Relay and Video Relay Services program.

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

Kent R. Nilsson
Inspector General

cc: FCC Chief of Staff
FCC Managing Director

Enclosure

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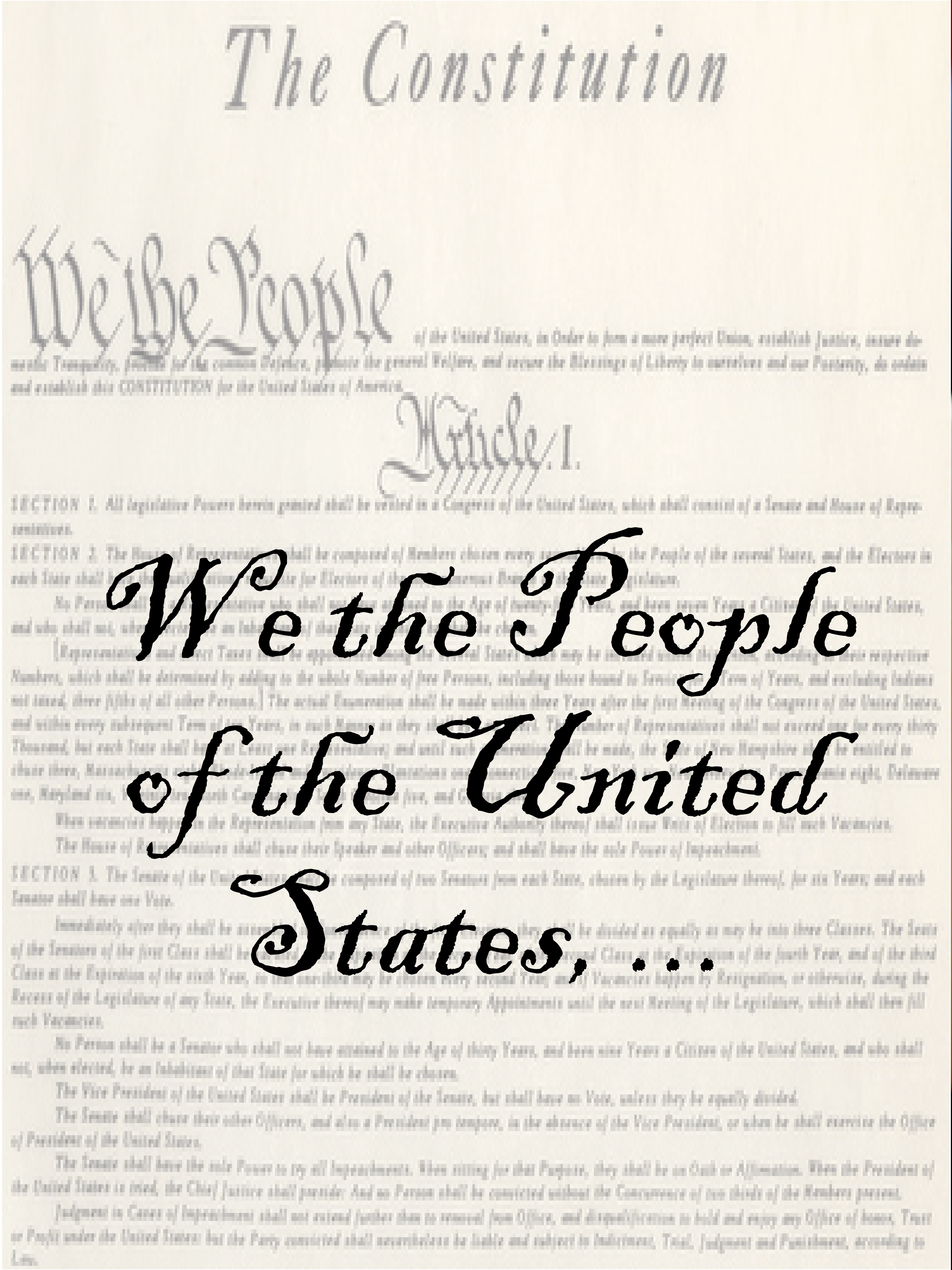
INTRODUCTION

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. Michael J. Copps serves as Acting Chairman. Jonathan S. Adelstein and Robert M. McDowell serve as Commissioners. Two Commissioner's positions are currently vacant. Most of the FCC's employees are located at the Portals II building, which is located at 445 12th St., S.W. in 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 Inspector General Act of 1978, as amended, (hereinafter referred to as "Inspector General Act" or "IG Act") and assisting the Acting Chairman in his continuing efforts to improve the effectiveness and efficiency of the Federal Communications Commission. The Inspector General ("IG"), Kent Nilsson, reports directly to the Acting Chairman. The IG's staff consists of attorneys, auditors, economists, investigators, management specialists and support personnel. Principal assistants to the IG are: David L. Hunt, Assistant Inspector General ("AIG") for Investigations and Counsel; Curtis M. Hagan, AIG for Audits; William K. Garay, AIG for Universal Service Fund Oversight; Thomas C. Cline, AIG for Policy and Planning; and Harold Shrewsberry, AIG for Management.

This semiannual report includes the major accomplishments and activities of the OIG from October 1, 2008 through March 31, 2009, as well as information on the IG's goals and future plans.



We the People of the United States, …

OIG MANAGEMENT ACTIVITIES

OFFICE STAFFING

OFFICE MODERNIZATION

INTERNSHIP PROGRAM

LEGISLATIVE & POLICY MATTERS

OIG MANAGEMENT ACTIVITIES

Office Staffing

Additional personnel, as well as funding to support the work of the Office of Inspector General ("OIG," or "Office"), are essential to meeting the objectives of the Inspector General Act and fulfilling the responsibilities of the Inspector General ("IG") that are contained in section 0.13 of the Commission's rules. So far, it has been possible to make progress because of the willingness of the Acting Chairman and his staff to support the work of this Office. The Office is now comprised of forty-two professionals and three support personnel. With each addition, the professional training, experience and personal commitment to improving the administration of the Commission's programs and eliminating fraud, waste and abuse has increased. Additional personnel are being added to meet the increasing demands that are being placed on this Office as the Commission's programs increase in size and complexity.

The OIG has been interviewing and selecting candidates for management, attorney, auditor, and investigator positions authorized by the FY2008 budget for the Universal Service Fund ("USF") oversight mission. Within the current reporting period, this office has hired new employees and completed its evaluation of four additional candidates. Postings for auditors and investigators for USF oversight will continue until the OIG has reached the level of staffing required to perform the USF oversight mission effectively. The IG continues to support the Federal Communications Commission's intern program and is looking forward to assistance from qualified interns to fulfill critical functions associated with an expanding staff and workload.

Our professional staff consists of well-trained, seasoned professionals, most of whom have one or more professional certifications. We support their efforts to expand their knowledge and achieve professional 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, the Inspector General Criminal Investigative Academy, Inspectors' General training programs and other relevant venues.

Office Modernization

We reported in the past that efforts continue to modernize the Office to insure that the OIG will be able to address the oversight activity anticipated for the USF, as well as financial statements and information technology audits of the FCC and its external program segments, financial controls audits of the FCC and its external program segments, and a steadily increasing volume of complex investigations. As noted above, the IG received funding that was approved by the Commission, the President and Congress to improve the OIG's USF oversight mission. These funds are providing the IG with resources that have enabled him to increase the number of auditors and investigators performing that critical mission. The OIG has been purchasing software and related equipment that will aid auditors, attorneys, economists, investigators and other personnel in accomplishing their missions.

We continue to implement the Knowledge Management System discussed in previous semiannual reports. This new system will increase the OIG's ability to manage audits, investigation case files, documents, reporting data and project tracking activities while coordinating field and internal audits and related investigations. Information gathered during the fiscal year 2007, 2008, and 2009 audits of the USF program have provided information that will further assist in the development and implementation of that system.

The modernization of the FCC OIG will continue with the deployment of new laptop computers using Virtual Private Network ("VPN") access over a secure wireless connection for remotely connecting to the FCC network. This provides a higher level of security when working remotely and providing access to FCC resources.

The OIG has been in the process of relocating some of its offices to accommodate the new hire expansion and improve security. This relocation has been delayed as a consequence of the need to move personnel who are presently engaged in addressing the DTV transition. The IG's objective is to ultimately provide the OIG with a centralized, controlled access office environment that is separate from other FCC offices thereby precluding other personnel from unauthorized entry into the OIG.

Internship Program

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

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

Legislative and Policy Matters

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

OIG MANAGEMENT ACTIVITIES

During this reporting period, the Office monitored legislative activities affecting the activities of the OIG and the FCC. The Office also monitored legislation and legislatively related proposals that may, directly or indirectly, affect the ability of IGs to function independently and objectively. The Inspector General Reform Act of 2008 (H.R. 928) was enacted on October 14, 2008 and we are taking steps to ensure compliance with this legislation. We have also initiated oversight planning and reporting as required by the American Recovery and Reinvestment Act of 2009 (H.R. 1, Public Law 111-5, February 17, 2009). In addition to legislative developments, the OIG continuously monitors FCC policy development and provides input as appropriate.

FCC Headquarters Building
Portals II Building

The Constitution

… in Order to form a more perfect Union, establish Justice, ensure domestic Tranquility, …

AUDIT ACTIVITIES

FINANCIAL AUDITS

PERFORMANCE AUDITS

UNIVERSAL SERVICE FUND OVERSIGHT

AUDIT ACTIVITIES

FINANCIAL AUDITS

Financial statement audits provide reasonable assurance as to whether the FCC's financial statements are presented fairly in all material respects. Other objectives of financial statement audits are to provide an assessment of the internal controls over transaction processing for accurate financial reporting and an assessment of compliance with applicable laws and regulations.

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

In accordance with Accountability of Tax Dollars Act of 2002, the FCC prepared consolidated financial statements for the 2008 fiscal year in accordance with Office of Management and Budget ("OMB") Circular A-136, Financial Reporting Requirements. The Chief Financial Officers Act of 1990 ("CFO Act") as amended, requires the FCC Inspector General or an independent external auditor selected by the Inspector General, to audit the FCC's financial statements in accordance with government auditing standards issued by the Comptroller General of the United States. Under OIG oversight, Clifton Gunderson LLP ("CG-LLP"), an independent certified public accounting firm, performed the FCC 2008 consolidated financial statement audit in accordance with the Comptroller General's Government Auditing Standards; OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements, as amended; and applicable sections of the U.S. Government Accountability Office ("GAO") President's Council on Integrity and Efficiency ("PCIE") Financial Audit Manual.

CG-LLP issued its financial audit report to the Commission's management on November 13, 2008. The audit report included an unqualified opinion on the financial statements, a section on the consideration of Internal Controls over financial reporting, and a section on Compliance with select laws and regulations. The Commission's management agreed with the auditors' findings and the recommendations that were contained in those reports. Several highlights of that report are summarized below.

Internal Controls over Financial Reporting

In performing its tests of internal controls over financial reporting necessary to achieve the objectives outlined in OMB Bulletin No. 07-04, CG-LLP identified four control deficiencies that in its judgment may adversely affect any decision by FCC management that is based, in whole or in part, on inaccurate information resulting from the identified deficiencies. CG-LLP concluded that one of the four internal control deficiencies was a material weakness and that the other three internal control deficiencies were determined by the auditors to be significant deficiencies, although not material weaknesses.

The OMB defines "significant deficiency" as "a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected." Further, the OMB defines a "material weakness" as "a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected."

As a result of the four financial reporting control deficiencies identified, CG-LLP recommended that the FCC:

• Strengthen controls over the USF budgetary accounts by performing in-depth financial analyses and training (material weakness);

• Improve the financial reporting process by implementing a fully integrated financial system and formalizing policies and procedures for recurring and unique transactions (a significant deficiency);

• Develop, formalize and implement policies and procedures for the USF Allowance for loss on Accounts Receivables methodology (a significant deficiency); and

- Improve its entity-wide security plan (a significant deficiency).

Compliance with Laws and Regulations

Commission management is responsible for complying with laws and regulations applicable to the FCC. To obtain reasonable assurance as to whether the Commission's financial statements are free of material misstatement, CG-LLP tested compliance with provisions of applicable laws and regulations to ascertain if non-compliance existed that could have a direct and material effect on the financial statements and well as certain other laws and regulations specified in OMB Bulletin No. 07-04. CG-LLP limited its tests of compliance to those OMB provisions and did not test compliance will all laws and regulations applicable to the FCC.

CG-LLP's test disclosed that the following noncompliance with laws and regulations required to be reported under Government Auditing Standards and OMB Bulletin 07-04 continues to exist from prior years' audits:

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

Report on Special-Purpose Financial Statements

During this reporting period, we also transmitted a final report covering the Commission's FY 2008 special-purpose financial statements to the Commission's management. CG-LLP performed the audit of the special purpose financial statements under the oversight of the Office of Inspector General. The FCC earned an unqualified opinion on its special-purpose financial statements. The auditor's report disclosed no material weaknesses in internal controls over the financial reporting process for the statements and no instances of non-compliance. This report was provided to the U.S. Department of Treasury's Financial Management Service and GAO as required by statute.

Management and Performance Challenges

On October 16, 2008, we issued our annual statement summarizing our assessment of the most serious management challenges facing the FCC in FY 2008 and beyond. We identified the Universal Service Fund, the Telecommunications Relay Service Fund, and the need to modernize the FCC's information technology and financial management infrastructures as significant management challenges. Management concurred with the challenges that we identified and included our letter and its response in the FCC's Fiscal Year 2008 Performance and Accountability Report, released November 17, 2008.

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.

Telecommunications Relay Service

The Telecommunications Relay Service ("TRS") Fund compensates communications service providers for the costs of providing interstate telecommunications services that enable a person with hearing or speech disabilities to communicate with a person without hearing or speech disabilities. Distributions from the TRS Fund have grown substantially since its inception, increasing the risk of fraud, abuse, and improper payments. The fund's initial annual allotment for distributions was $30.8 million, and increased over the next six years

AUDIT ACTIVITIES

PERFORMANCE AUDITS

to $38.0 million in 1999. The TRS fund has increased approximately 50 to 80 percent each year since then, and reached $637 million in the fund's fiscal year July 1, 2007 through June 30, 2008. The Federal Communications Commission (FCC) approved a fund size of $805 million for the current funding year of July 1, 2008 through June 30, 2009.

During the previous reporting period the OIG issued a report to the FCC summarizing the results of a TRS program risk assessment and performance audits of seven TRS providers that were performed by an independent public accounting firm. The risk assessment identified a number of significant items, including the risk that improper costs may be submitted for the rate setting process and improper minutes may be submitted for the monthly payments, which could result in inappropriate payments. Findings identified during the audits include duplicate billing for minutes of service provided, inappropriate billings for test and installation calls, inadequate documentation to support the TRS providers' costs, and inadequate controls to ensure that minutes of service submitted to the TRS fund administrator for payment are accurate, reasonable and allowable.

The OIG issued a summary report recommending that the FCC revise its procedures for the rate setting process to ensure that costs included in the computations are reasonable and allowable and in accordance with uniform accounting principles or cost accounting standards, such as generally accepted accounting principles or cost accounting standards established by the Federal Acquisition Regulation. The report also recommended that the FCC's management issue guidance to the TRS fund administrator to improve internal controls for disbursements, and reduce the risk of fraud, waste, and improper payments. Specifically, the report recommended improved procedures for:

• performing an annual risk assessment and review of internal controls for administration of the TRS Fund;

• verifying the accuracy and reasonableness of each claim prior to payment;

• referring questionable claims for payments to the FCC for review and a determination as to whether payment should be made; and

• performing periodic audits of the TRS providers' internal controls, cost submissions, and claims for payment for minutes of service provided.

Based on that report's recommendations, the FCC has initiated corrective actions, including issuing additional guidance to the TRS Administrator to help improve internal controls. These controls should help to safeguard TRS funds and reduce the risk of fraud, waste and improper payments.

UNIVERSAL SERVICE FUND OVERSIGHT

In the last semiannual report dated October 31, 2008, we provided an update on the oversight activities of the USF program including the Round 1 and Round 2 attestation engagements of USF beneficiaries. This report provides updates to those efforts as well as progress on Round 3.

The FCC OIG has continued to oversee a Universal Service Administrative Company ("USAC") administered effort to perform attestation engagements of the USF program beneficiaries. USAC contracted with a number of CPA firms to perform these engagements. Attestations engagements are being performed to enable our Office to fulfill its responsibilities under the IG Act, as amended, 5 U.S.C. App. In addition, this engagement also permits us to provide information to facilitate assessments of the risk of erroneous payments that are required by the Improper Payment Information Act of 2002 ("IPIA"), (Public Law No: 107-300). The IPIA supports a component of the President's Management Agenda concerning reductions in erroneous payments by federal departments and agencies. Agencies are required to review all programs and activities they administer and identify those which may be susceptible to significant erroneous payments. The IPIA defines significant erroneous payments as annual erroneous payments in a program that exceeds 2.5 percent of the program's annual payments and $10 million.

These attestation engagements directly address our obligation under the IG Act, to determine how agency programs can be operated more efficiently that charges the OIG and to detect and prevent fraud, waste, and abuse in FCC programs.

For Rounds 1, 2, and 3 we used statistical sampling and auditing techniques that addressed our responsibilities under the IG Act as well as those in the IPIA. We completed Round 1 attestation engagements of the four USF support programs. They were:

- High Cost Program
- Schools and Libraries Program
- Low Income Program
- Rural Health Care Program

Additionally, we performed attestation engagements of contributors to the USF.

Results from Round 1 are detailed in the October 3, 2007 OIG report which may be found at www.fcc.gov/oig/. Briefly, the results from those audits strongly indicated that the High Cost, School and Libraries, and Low Income programs are "at risk" as that term is defined by the IPIA. Results of the attestation engagements of USF contributor audits indicate substantial room for improvement in the management of that program, as well.

As a result of the information provided from the Round 1 audits, we proceeded to perform a second round of attestation engagements in a second round of audits, Round 2, but only for two USF program funding categories: High Cost and Schools and Libraries. Based on stratified random statistical sampling, 260 Schools and Libraries Program and 390 High Cost Program beneficiaries were selected for attestation engagements. These attestation engagements were performed by 12 public accounting (audit) firms under contract to USAC with oversight by the OIG.

As of March 31, 2009, 110 audits of High Cost companies and 200 audits of School and Library beneficiaries have been completed and approved by USAC's Board of Directors (summary data concerning these audits that were reported by USAC's auditors may be found in Table 1, *infra*). All estimated erroneous payment data results from the second round of attestation engagements have been delivered by the audit firms as well.

Our preliminary statistical analysis of improper payments has indicated that Schools and Libraries (with an estimated erroneous payment rate of 13.8%) and High Cost Programs (with an estimated erroneous payment rate of 23.3%) will again substantially exceed, by an even wider margin, the IPIA "at risk" thresholds and that those programs should continue to be considered "at risk." This in turn, resulted in the development of another stratified statistical sample of beneficiaries in the Schools and Libraries and High Cost Programs based on the significantly higher estimated erroneous payment rates from Round 2. Those results confirmed the need for a third round, Round 3, of attestation engagements to determine whether any of the measures that had been taken by the FCC and USAC had, in fact, reduced the estimated erroneous payment rates in those two USF programs (which, in the case of the Schools and Libraries Program, exceeds the IPIA limit of 2.5 percent by a factor of 5 and, in the case of the High Cost Fund Program, exceeds the IPIA limit by a factor of 9). USAC has contracted for attestation engagement services to conduct the third round of attestation engagements of these programs.

The results from Round 1 and the preliminary results from Round 2 attestation engagements have not lessened our concern about the possibilities for fraud, waste, and abuse in the Commission's USF programs as administered by USAC. In fact, our concerns about the operations of these programs, based upon the evidence before us, has increased as assessments of estimated erroneous payments exceed billions of dollars.

In the meantime, for Round 3, we have endeavored to effect changes to improve both the efficiency and the effectiveness of the USAC administered attestation engagement process. We have done this to address complaints, suggestions, and advice as to how it would be possible to improve the quality and lessen the overall cost of conducting these attestation engagements as administered by USAC.

First, we have increased our USF oversight staff from five to thirteen. We are in the process of hiring additional auditors and investigators to further improve our oversight of this process. This will greatly increase our ability to directly oversee audit activity, especially in the field where audit activity critical to the quality of information gathered occurs. To date we have attended sixty entrance conferences or fieldwork site visits either in person on by phone. This is about twice the number attended in all of our Round 2 oversight efforts.

Second, we will continue to monitor and improve training to the USAC contracted auditors. Based on input from a number of auditees, industry associations, and industry leaders, the audit firms contracted to perform these audits appear to be better trained than in previous rounds. We attribute this improvement to the changes in the USAC auditor-training program that we were able to implement for Round 3.

Third, working with industry and state associations, we have begun workshops to educate beneficiaries directly as to the responsibilities of auditees. Our objective through these efforts has been to reduce the number of auditor errors. By March 31, 2009, we had conducted three national workshops with a fourth scheduled during September, 2009. These workshops are in addition to meetings we have held with industry leaders and National Exchange Carriers Association, Inc. board members.

Fourth, for the most part, USAC contracted directly with auditing firms to perform these attestation engagements. This office, however, also initiated its own audits to address issues of confidentiality, lack of adequate audit coverage, and audit firm and program management missteps.

Finally, we are following up on audit reports that resulted in disclaimers and withdrawals by the audit firms. This will provide us with additional information for recommendations on resolving audit findings.

The tables below represent potential monetary effects of Round 2 attestation engagements completed and approved by the USAC board of directors as of March 31, 2009. This information was extracted from those audit reports and may not define actual USF amounts recoverable from the recipients, because of potential appeals and further audits that result from disclaimed opinions.

Table 1: High Cost Audits

Entity Name	Potential Monetary Effect
CenturyTel of North Louisiana, LLC	$0
CenturyTel of Arkansas, Inc.	$17,000
CenturyTel of Northwest Arkansas, LLC - Russellville	$72,000
CenturyTel of Eagle, Inc.	$75,000
CenturyTel of Southern Alabama	$10,000
CenturyTel of Central Arkansas, LLC	$93,000
CenturyTel of Eastern Oregon, Inc.	$0
CenturyTel - Evangeline	$0
CenturyTel of Minnesota, Inc.	$0
CenturyTel of Mountain Home, Inc.	($1,000)
CenturyTel of Northern Wisconsin, LLC	$29,000
Windstream Concord Telephone, Inc. (F/K/A The Concord Telephone Company)	$38,000

Table 1: High Cost Audits (Continued)

Entity Name	Potential Monetary Effect
Spectra Communications Group, LLC	$0
South Central Bell - Louisiana	$4,534
Mcloud Telephone Company	$0
Matanuska Telephone Association, Inc.	$0
Iowa Rural Service Area No. 2 Limited Partnership	$94,521
Nebraska Technology. & Telecommunications, Inc.	($42,092)
Northwest Dakota Cellular Of North Dakota LP	$249,021
Nex-Tech Wireless, LLC	$110,905
American Cellular Corporation (Wisconsin)	$1,073,578
Centennial Puerto Rico Operations Corporation	$1,371,346
Cingular Wireless	$149,167
Cingular Wireless, LLC D/B/A AT&T Wireless (Washington)	$16,785,632
Dobson Cellular Systems, Inc.	($1,667,035)
Dobson Cellular Systems, Inc. (Michigan)	($485,139)
Iowa Rural Service Area 10	$44,306
Kaplan Telephone Company D/B/A Pace Communications	$0
Midwest Wireless Communications, LLC	$140,422
Midwest Wireless Iowa, LLC	($54,322)
New Cingular Wireless PCS, LLC	($32,626)
New Cingular Wireless PCS, LLC	$635,402
North Central Rural Service Area 2 Of North Dakota LP	$0
North Dakota Network Company	($28,678)
Puerto Rico Telephone Company D/B/A Verizon Wireless Puerto Rico	$119,486
Rural Service Area 1 Limited Partnership	$848,479
Bluegrass Cellular	($29,015)
Centennial Beauregard Cellular LLC	$11,892,899
GCI Communications Corporation	$225,409
United States Cellular	$910,814
United States Cellular Corporation	$516,326
United States Cellular Corporation	($3,721)
USCOC of Nebraska/Kansas, LLC	($1,197,634)
Commonwealth Telephone Company	$707,040
Farmers Telephone Cooperative, Inc.	($556,950)

AUDIT ACTIVITIES
UNIVERSAL SERVICE FUND (USF) OVERSIGHT

Table 1: High Cost Audits (Continued)

Entity Name	Potential Monetary Effect
Golden West Telecommunications	$0
National Of Alabama	$0
Skyline Membership	$0
Wilkes Telephone & Electric Company	$18,435
Barnes City Cooperative Telephone Company	$0
Cedar County PCS, LLC	$10,062
Routing Control Center? Minnesota	$0
Rural Cellular Corporation Minnesota, Inc.	$0
Rural Cellular Corporation Minnesota, Inc.	($626)
Rural Cellular Corporation Minnesota, Inc.	$357
SEI Wireless, LLC	$5,540
Virginia Cellular LLC	$392
Brown County Metropolitan Statistical Area? Cellular Ltd. Partnership	$0
Budget Phone, Inc.	($2,185)
CC Cellular D/B/A Cc Communications	$71,280
Cellular South License, Inc.	$23,454
Community Digital Wireless, LLC	$4,671
Smith Bagley, Inc.	$0
Smith Bagley, Inc. (Non-Reservation)	$0
Buffalo Valley Telephone	$27,538
Community Cable Television Company Of O'Brien County	$1,513
East Buchanan Telephone Cooperative	$20,033
Panhandle Telecommunications Systems, Inc.	($19,806)
Sagebrush Cellular, Inc.	$774
Union Telephone Company. D/B/A Union Cellular	$508,783
Washington Rural Service Area No. 8 Limited Partnership	$0
Big Bend Telephone Company Inc.	$2,468
New Hope Telephone Cooperative	$15,853
Sierra Telephone Company	($3,444)
United Telephone Association, Inc.	$57,607
Alltel Communications, Inc.	($1,666,704)
Carolina Telephone and Telephone Company, LLC	($15,396)
Central Telephone Company of Texas	($8,358)

Table 1: High Cost Audits (Continued)

Entity Name	Potential Monetary Effect
Central Telephone Company of Virginia, Inc.	($1,890)
Qwest Corporation - Arizona	$3,654
Qwest Corporation - Colorado	$18,582
Sprint-Florida, Inc.	($70,380)
United Telephone Company of the Northwest - Washington	$1,194
Western Wireless	($105,582)
Western Wireless	($292,218)
Western Wireless	($51,186)
Western Wireless	$0
Western Wireless	($342,288)
Western Wireless – Montana	$0
Valor Telecommunications of Texas, LP D/B/A Windstream Communications Southwest – New Mexico 2	$1,153,170
Alaska Communications Systems Holding, Inc.	$0
Alltel Communications - Wireless Kansas	$1,540,848
Alltel Communications Of Nebraska, Inc.	($91,470)
Alltel Communications, Inc.	$0
Alltel Communications, Inc.	$0
Alltel Communications, Inc.	($298,716)
Alltel Communications, Inc.	$263,808
Alltel Communications, Inc.	$9,636
Alltel Georgia Inc.	($162,649)
Alltel Oklahoma Inc	($74,015)
Citizens Frontier of California	$5,364,264
Windstream Georgia Telephone, LLC F/K/A Georgia Telephone Corporation	$0
Qwest Corporation – Montana	($21,618)
Qwest Corporation – Wyoming	$10,848
Sprint Spectrum, LP	$547,422
Western Wireless	($77,052)
Webster-Calhoun Cooperative Telephone Company	$0
UTC of Texas, Inc.	$28,698
Sprint Spectrum, LP	$95,460
Sprint Spectrum, LP	$87,450
Total	**$38,703,286**

AUDIT ACTIVITIES
UNIVERSAL SERVICE FUND (USF) OVERSIGHT

Table 2: Schools And Libraries Audits

Entity Name	Potential Monetary Effect
Pinon High School	$526,476
Armstrong School District	$244,138
Johnston County School District	$225,474
McAllen Independent School District	$63,697
Saddleback Valley Unified District	$7,993
Halifax County School District	$3,930
Brooks County Independent School District	$1,454
Central Dauphin School District	$1,140
Albemarle County School District	$828
Stephenville Independent School District	$244
Essex County School District	$64
Lexington County Public Library	$37
Irving Independent School District	$0
Groesbeck Independent School District	$0
Grapevine-Colleyville Independent School District	$0
Chico Unified School District	$0
Richland County School District 2	$0
Alice Independent School District	$0
Garland Independent School District	$0
Onalaska Independent School District	$0
Red Bluff Union Elementary School District	$0
Texas School For The Blind	$0
Inglewood Unified School District	$0
Riverside Unified School District	$0
Westmoreland County School District	$0
Fabens Independent School District	$0
Greenville County School District	$0
Hanford Elementary School District	$0
Anaheim Public Library	$178,434
Fall River Joint Unified School District	$5,323
Central Union High School District	$13,700
Celerity Nascent Charter School	$8,191
Corcoran Joint. Unified School District	$3,163

Table 2: Schools And Libraries Audits (Continued)

Entity Name	Potential Monetary Effect
Evergreen School District	$2,907
Woodlake Union High School District	$0
Sacramento County Office of Education	$0
Huntington Beach Unified High School District	$2,791
Monroe Township Public Schools	$78,318
Bayonne School District	$5,208
Corbin Independent School District	$804
Hoboken School District	$0
Worcester County School District	$0
Harlan County School District	$0
Talbot County Public School District	$0
Wayne Township School District	$0
Oakland Unified School District	$6,509,450
Dougherty County School System	$1,696,422
Yonkers Public School District	$1,450,076
Columbus Public Schools	$548,791
Lancaster School District	$461,785
East Cleveland City School District	$430,304
Klamath-Trinity Joint Unified School District	$233,573
Georgia Board Of Regents	$215,259
Gallup-Mckinley County School District	$203,448
Kentucky State Department of Education	$166,439
Northridge Local School District-Dayton	$163,603
St Landry Parish School District	$152,940
Los Angeles Unified School District	$95,779
Brownsville Independent School District	$66,391
Holy Cross School	$63,241
Information Referral Resource Assistance	$26,627
Allegheny Intermediate Unit 03	$41,019
West Virginia Library Commission	$36,108
Fort Wayne Community School District	$34,842
Tulsa Independent School District 1	$33,939

AUDIT ACTIVITIES
UNIVERSAL SERVICE FUND (USF) OVERSIGHT

Table 2: Schools And Libraries Audits (Continued)

Entity Name	Potential Monetary Effect
Placentia-Yorba Linda Unified School District	$26,409
Katy Independent School District	$22,968
Osborn Elementary School District #8	$19,187
Lower Kuskokwim School District	$18,800
Butler County School District	$18,212
Hobbs Municipal School District	$12,875
Texans Can! Academy	$12,592
New York City Department Of Education	$12,507
Socorro Independent School District	$11,928
Gaston County School District	$11,890
Albany City School District	$9,616
Coahoma County School District	$9,070
Southwest Region School District	$7,622
Mississippi School Of The Arts	$7,412
Dublin City School District	$6,671
Coachella Valley Unified School District	$4,000
Incarnation Elementary School	$3,896
Hamden Public School District	$3,723
East Baton Rouge Parish District	$1,755
Portsmouth Public Library	$1,697
Kenai Peninsula Boro School District	$1,585
Thomasville City School District	$1,582
Schenectady City School District	$1,439
Pascagoula School District	$1,356
Jefferson County Public Schools	$1,125
Fowler Unified School District	$469
Beaumont Independent School District	$434
Glassboro Public School District	$413
Cleveland City School District	$363
Tulsa City-County Library System	$336
Azusa Unified School District	$276
Truth Or Consequences Municipal School District	$165
Pitt County School District	$143

Table 2: Schools And Libraries Audits (Continued)

Entity Name	Potential Monetary Effect
Metropolitan School District of Lawrence Township	$126
Hobart Independent School Dist I 1	$9
Aldine Independent School District	$0
Arlington Public School District	$0
Baltimore City School District	$0
Chattooga County School District	$0
Clinton Independent School District 99	$0
Columbus County School District	$0
Emmett School District 221	$0
Fort Bend Independent School District	$0
La Salle Parish School District	$0
Morongo Unified School District	$0
Miami-Dade County Public Schools	$0
Jackson County School District	$0
Office Of The Superintendent Of Public Instruction	$0
Eastern Suffolk Board of Cooperative Educational Services	$0
Cincinnati City School District	$0
Clayton County Public Schools	$0
Douglas County School District R E 1	$0
Dutchess Board of Cooperative Educational Services	$0
Fairfax County Public Schools	$0
Florida Information Resource Network	$0
Leake County School District	$0
Memphis City School District	$0
Metropolitan Dayton Educational Cooperative Association	$0
Navajo Preparatory School	$0
Nebraska City Public Schools	$0
Beaufort County School District	$0
Birmingham City School District	$0
Cherry Creek School District 5	$0
Eagle Pass Independent School District	$0
Genesee Valley/Wayne-Finger Lakes Educational Technology	$0
Gettysburg Area School District	$0

AUDIT ACTIVITIES
UNIVERSAL SERVICE FUND (USF) OVERSIGHT

Table 2: Schools And Libraries Audits (Continued)

Entity Name	Potential Monetary Effect
Hovar Escuela Sor Maria Rapaela	$0
Pueblo City School District 60	$0
Rio Grande City School District	$0
South Carolina Division Of The Chief Information Officer	$0
Southern Oklahoma Technology Center	$0
Tennessee. State Department Of Education	$0
Anoka-Hennepin School District 11	$171,107
West Texas Telecommunications Consortium	$95,054
Lima City School District	$66,388
Minnetonka School District 276	$25,395
Gary Community School Corporation	$23,701
Wooster City School District	$16,850
Manhattan Unified School District 383	$14,890
Minneapolis School District 1	$11,258
Crocker School District R 2	$11,205
Kansas City Unified School District 500	$9,714
North American Family Institute	$9,207
Geauga County Superintendent Of Schools	$5,681
Medford School District	$3,799
Reese Public School District	$3,370
Sippican School	$2,671
Hart Independent School District	$1,617
Renwick Unified School District 267	$1,215
Bartholomew Consolidated School Corporation	$557
Ser-Ninos Charter School	$423
Ashe County School District	$319
Rippey Elementary	$300
Inter Lakes Cooperative School District	$294
Iredell-Statesville School District	$0
Mishawaka City School Corporation	$0
New Lexington City School District	$0
Rowan-Salisbury School District	$0
Shepherd School District 37	$0

Table 2: Schools And Libraries Audits (Continued)

Entity Name	Potential Monetary Effect
Wolford Public School District #1	$0
Somerville School District	$0
Southern Westchester Board of Cooperative Educational Services	$1,700,044
Jefferson-Lewis-Hamilton-Herkimer-Oneida Board of Cooperative Educational Services	$674,291
Hacienda La Puente Unified District	$130,252
Half Hollow Hills School District	$48,759
Indian River County School District	$18,819
Osceola County School District	$4,372
Jefferson County School District R-1	$3,474
Cahokia School District 187	$1,754
Geneva County School District	$1,387
Chicago Public Schools	$899
Randolph Academy School District	$272
Roane County School District	$267
Everett School District 2	$55
Brentwood Union Free District	$0
Clarkstown Central School District	$0
Franklin County School District	$0
Buffalo & Erie County Public Library	$0
Elmore County School District	$1,760
Etowah County School District	$2,305
Hillside Children's Center School	$0
Lowndes County School District	$0
Mobile County School District	$0
Okeechobee County School District	$0
Talmud Torah Tzoin Yosef Pupa Inc.	$0
Cleveland City School District	$293
Elmont Union Free School District	$0
Haywood County School District	$0
Lodi Unified School District	$0
Marengo County School District	$0
New Covenant Christian School	$0

Table 2: Schools And Libraries Audits (Continued)

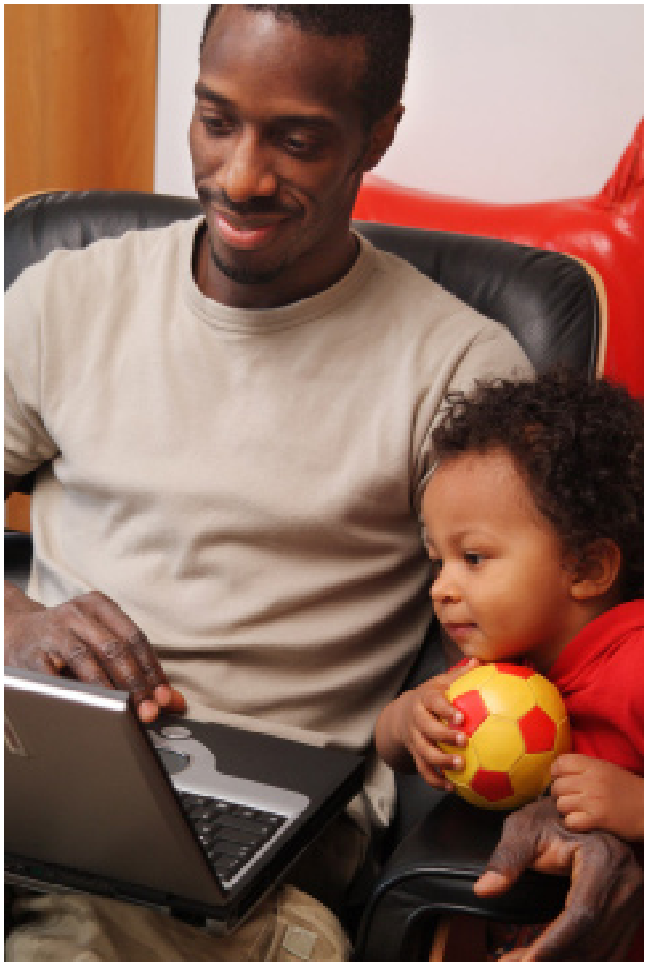
Entity Name	Potential Monetary Effect
San Joaquin Valley Library System	$0
San Jose Unified School District	$0
Talladega County School District	$0
United Talmudical Academy Of Burough Park	$0
Total	**$17,301,019**

Support to Investigations

In addition to the audit component of our oversight program, our audit efforts provided, and continue to provide, audit and investigative support to United States Department of Justice investigations of E-rate and High Cost fund recipients. To implement the investigative component of this effort, we have developed working relationships with various components within the Department of Justice. As of the end of this reporting period, we are directly supporting 27 USF investigations and monitoring an additional 6 USF investigations. Please refer to the Investigations section of this report for further information.

USAC Management

Central to the administration of the Commission's USF program is USAC. In our view, USAC needs to take a substantially more aggressive role in improving the quality and accuracy of the information that is submitted to it by applicants for USF payments, acknowledge that responsibility and take active ownership of that process. USAC also needs to develop extensive internal controls over its operations to ensure accuracy, transparency, accountability, and to reduce the possibilities of incorrect payments being made from the Universal Service Fund. This was illustrated in a recent report from our office concerning USAC's administration of the Low Income Fund (Assessment of Payments Made Under the Universal Service Fund's Low Income Program (released December 12, 2008, which is available at www.fcc.gov/oig/)) in which documentation was not retained by USAC that would have permitted auditors to determine the accuracy of the distributions that had been made by USAC employees to Low Income Program recipients. Erroneous payment rates need to be reduced, overpayments need to be recovered and, in our opinion, USAC also needs to improve its efforts and performance in both of those key areas.



AUDIT ACTIVITIES

Assessment of Payments Made Under The
Universal Service Fund's
Low Income Program

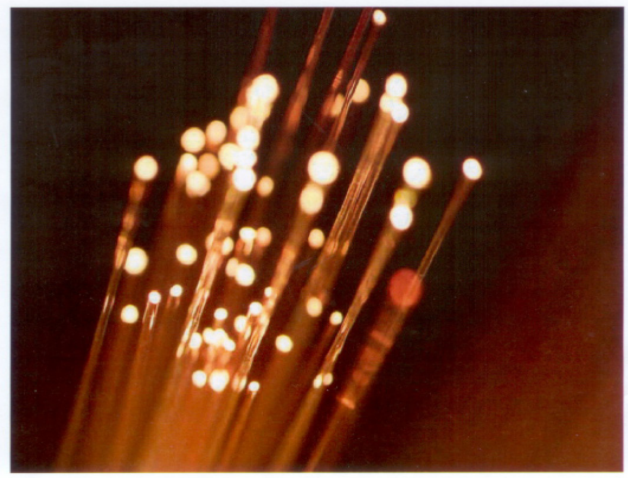
By
Office of Inspector General
Federal Communications Commission

December 12, 2008

The High Cost Program
Initial Statistical Analysis of Data from the 2007/2008
Compliances Attestation Examinations

By
Office of Inspector General
Federal Communications Commission

November 26, 2008



The Schools and Libraries Program
Initial Statistical Analysis of Data from the 2007/2008
Compliances Attestation Examinations

By
Office of Inspector General
Federal Communications Commission

December 12, 2008

These reports may be found at:

http://www.fcc.gov/oig/

The Constitution

...provide for the common defence, promote the general Welfare, and secure the Blessings of Liberty to ourselves and our Posterity,...

INVESTIGATIONS

ACTIVITY DURING THIS PERIOD

SIGNIFICANT INVESTIGATIVE CASE SUMMARIES

OIG HOTLINE

INVESTIGATIONS

Federal Communications Commission ("FCC") Office of Inspector General ("OIG") investigations are frequently initiated on the basis of allegations of employee misbehavior, violations of federal law or FCC regulations, or allegations of fraud, waste or abuse. These investigations frequently concern allegations of fraud in FCC programs, such as the Spectrum Auction and 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. Individuals call or e-mail the OIG Hotline, or send complaints through the United States mail. These allegations can be, and frequently are, made anonymously. Other government agencies, federal, state and local, including the Government Accountability Office, the Office of Special Counsel, and 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, the Assistant Inspector General for Investigations ("AIGI") or a member of his staff conducts a preliminary review of the matter to determine if an investigation or referral is warranted. Sometimes serious allegations that merit attention are outside the jurisdiction of the OIG. These allegations are 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 using a "triage" methodology.

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

The 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 site across the United States or high-grade forensic tools and the expertise to use them effectively. In these cases, we have always received, and are grateful for, the assistance of other agencies, especially the OIGs of other federal agencies. For example, in one matter the Office of Inspector General for the United States Postal Service obtained evidence for our office through the use of its criminal investigators. This cooperative and coordinated effort saved this office valuable time and expense by not having to send our agents out in the field where other inspector general criminal investigators were already located.

The AIGI and his staff 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 Universal Service Program, sometimes referred to as the Universal Service Fund ("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 perpetrators 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 indictments and prosecutions, and of restitution of the proceeds of such fraud to the USF.

ACTIVITY DURING THIS PERIOD

Statistics

Cases pending as of October 1, 2008	94
New Cases	21
Cases Closed	19
Cases pending as of March 31, 2009	96

At the outset of this reporting period, ninety-four (94) cases were pending. Thirty-nine (39) of those cases involve the Commission's Universal Service Fund ("USF") program and have been referred to the Federal Bureau of Investigation ("FBI") and/or the U.S. Department of Justice. An additional eighteen (18) non-USF and three (3) USF related complaints were received during the current reporting period. Over the last six months, nineteen (19) cases, nine (9) USF and ten (10) non-USF related, have been closed. As a consequence, a total of ninety-six (96) cases are pending, of which thirty-three (33) relate to the USF program. The OIG continues to monitor, coordinate and/or support activities regarding those thirty-three (33) investigations. The investigations pertaining to the pending sixty-three (63) non-USF cases are on-going.

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. Several of these matters were opened during this reporting period and are complex investigations that will require a significant expenditure of FCC OIG resources.

Investigation Regarding the Consumer Information Management System

In April of 2006, the Consumer and Government Affairs Bureau ("CGB") attempted to move data from a legacy, non-relational database management system to a relational-based database system called the Consumer Information Management System ("CIMS") system, which was based on a Structured Query Language platform. The attempt failed, resulting in a substantial loss in staff productivity as 13,000 records became suspect during the migration and had to be addressed individually by Commission staff. The post-failure analysis of this attempted migration identified 92 distinct field mapping errors that caused the data transfer to fail.

In mid-2006, FCC personnel complained about CIMS to the OIG and to the General Accountability Office which subsequently referred this matter to the FCC OIG for investigation. During the course of this investigation, OIG investigators conducted numerous interviews with people involved with CIMS and reviewed a large body of documentation relating to CIMS. As a result of this investigation, the OIG concluded that a number of factors contributed to the field mapping errors and consequent failure of the data migration.

The CIMS project began in 2002, when CGB contracted with a developer to consolidate the Commission's inquiry processing and complaint processing functions into a single system. This consolidation included moving data from the legacy, non-relational database the Commission had been using for complaint processing into a new, relational database. To accomplish this, the Commission hired a contractor that provided developers and project managers.

As the CIMS project moved forward, a number of employees had responsibility for the CIMS project as turnover occurred both with CGB staff and with contractor staff. Three different FCC Contracting Officer's Technical Representatives ("COTR") and two different project managers took turns working on the project.

The CIMS project hit snags along the way. CGB scheduled the initial data migration for 2005; however CIMS development went more slowly than anticipated, and the data migration was pushed back to April, 2006. In early 2006, work continued on CIMS development as issues concerning mapping of data fields were discovered. Additionally, the contractors were fielding requests for enhancements to the original baseline system and were being asked by the Office of the Chairman Martin ("OCM") and the Enforcement Bureau ("EB") to produce time-consuming reports pertaining to different matters. These reports were run in the CIMS production environment.

By the Spring of 2006, preparations for the launch of the data migration were under way. In March, 2006, ahead of the anticipated data migration date, the Consumer Advocacy Mediation Specialists ("CAMS") in Gettysburg, Pennsylvania were allowed to take part in a test of the prototype CIMS complaint processing system. According to all reports from the CAMS, CGB management and the contractors, the test was generally considered to be successful, although some minor issues were noted by at least one contractor.

In April, 2006, the data migration was attempted. Testimony conflicts as to whether requests for delay were made prior to this attempt, with contracted developers maintaining that delays were requested and denied, and the COTR at the time of the rollout maintaining that the project manager had assured the COTR that everything was on schedule.

Problems with the data migration developed quickly. Immediately after the roll out began, the CAMS began reporting massive problems with CIMS complaint processing, which indicated the data mapping had not been properly done. Eventually, 13,000 records that were moved to CIMS were compromised during the migration. After several weeks of unsuccessful work by developers to fix the mapping problems, CGB management decided to change direction. CGB stopped the migration and decided to fix the migrated files in CIMS on an individual basis with the use of a team of CAMS that was dedicated to that end. CGB also decided that those non-migrated complaints that remained in the legacy system would be processed as they had been before the data migration, and that the legacy system would not be allowed to accept new complaints.

Additionally, the CIMS project manager was removed from the contract after losing the confidence of the FCC's COTR. The COTR learned that the project manager made data mapping changes while working in the production environment without properly documenting this critical work. CGB then brought in a new project manager.

The data migration was poorly planned. During the course of this investigation, OIG investigators came to consider one factor in particular to be the basis for the failed data migration and other systemic problems: the lack of an adequate System Development Life Cycle plan ("SDLC"). Since 2000, the Commission has required project owners to use a SDLC based approach to systems development, and the failure to have such an approach in place in this instance resulted in the loss of thousands of hours of CAMS productivity.

As set forth on the FCC's Information Technology Center's webpage, an Information Systems Development Methodology is a structured process followed by an organization to manage all phases of information system development and modification activities throughout the information system life cycle from inception through termination. The systems development methodology governs not only systems development efforts prior to implementation, but also maintenance of the system after it becomes operational.

The Commission's SDLC policy was developed as the result of a cooperative effort among representatives from the OIG, the Information Technology Center, and Commission Bureaus and Offices. The development effort began in July, 1998 and ended with the implementation of the SDLC during the last quarter of calendar year 2000. This was well before the commencement of the CIMS project.

The SDLC is intended to be used as a framework to assist project managers through the systems development life cycle. It is composed of six major project phases: Initiation, Requirements, Design, Development/Test, Acceptance/Implementation, and Operations/Maintenance.

Each phase has its own documentation requirements.

As an initial matter, OIG staff attempted to determine whether there was a formal CIMS SDLC, and received a variety of contradictory responses. Answers from various COTRs, project managers and contractors, along with documents supplied to investigators, lead to the conclusion that there either was no SDLC, or that whatever was being used as a SDLC was inadequate. The OIG investigation team was given documents titled "CIMS Configuration Management, V 1.0" and "CIMS IV - Oscar Replacement Requirements Specification Document," but the investigators found no acceptance of any test plan, no separate testing environment and no written procedures for documenting work - all items that would have been included in a SDLC. Additionally, OIG investigators have not been able to find any implementation plan, bureau outreach plan, or business continuity plan. Nor has this investigation discovered any acceptance test plan, acceptance test report or fall-back plan in the event problems arose with the migration. Such omissions are not possible where an SDLC is in place and properly used.

The lack of an adequate SDLC had a substantial negative effect on the CIMS project. It was not, however, the only factor that caused the data migration and the CIMS product as originally planned to fail. Deadline pressure, combined with off-task reporting requests from the OCM and EB, development protocol breaches (making changes "on the fly" in the production environment without proper testing), COTR turnover and insufficient COTR oversight all contributed to the failure.

Subsequent to the failed migration, remedial steps were taken. CIMS and a newly developed database, the Consumer Complaint Managing System ("CCMS"), both of which are relational, now combine to handle incoming inquiry and complaint processing for the Commission. Between CIMS and CCMS, all of the functionality originally envisioned during the CIMS design appears to be present. The legacy, non-relational system no longer receives new complaints and is in the process of being phased out. Additionally, the following elements have been incorporated in the new process: (1) statements of work; (2) proper testing procedures; (3) separate environments for development, testing, and production; and (4) proper testing procedures with written documentation of testing results. The OIG has recommended that all Bureaus and Offices within the Commission ensure that they are in compliance with the Commission's SDLC policy and that they provide certificates to that effect to the FCC's Managing Director.

FCC Human Resources Management Investigation

The National Treasury Employees Union Chapter 209 ("NTEU" or "Union") approached the OIG regarding complaints by 14 employees that concerned the hiring process for several job postings during the summer of 2008 in the FCC's CGB. The Union and the individual complainants alleged, variously, that: (1) the Quick Hire program used to evaluate job applicants is not properly rating applicants; (2) Quick Hire is used in place of rating panels, in contravention of the Union's collective bargaining agreement; (3) a specifically identified Human Resources ("HR") Specialist has been limiting competition for job vacancies, is biased towards particular employees, and has engaged in nepotism; (4) Veterans' Preference was not properly credited for an employee during the hiring process; (5) an unqualified applicant was awarded a supervisory position in CGB; and (6) qualified applicants did not make qualified certification ("cert.") lists. At least two grievances were filed in connection with these postings. The grievances proceeded independently of this investigation.

The positions identified for investigation include internal and all source postings, at various job grades, for: (1) CAMS positions; (2) Consumer Education and Outreach Specialist ("CEOS") positions; (3) a CAMS supervisor position; (4) Intergovernmental Affairs ("IGA") Outreach Liaison positions; (5) Junior CAMS (GS-5 and GS-7) positions; and (6) Technical Information Specialist positions.

Two Commission employees were hired (at the

GS-9 level) on the all sources CAMS posting; no selection was made on the all sources CEOS posting; four Commission employees were hired (one as an GS-11, one as a GS-12, and two as GS-13s) on the internal CEOS posting; a CGB employee was hired on the CAMS Supervisor posting; four Commission employees were hired (one as a GS-12 and three as GS-13s) on the IGA Outreach Liaison posting; four Commission employees were hired (three as GS-5s and one as a GS-7) on the Junior CAMS posting; and the cert. on the Technical Information Specialist posting expired without filling that position.

OIG focused the investigation on the positions identified above, on the allegations concerning the HR Specialist, and on the general policies and procedures of the FCC's Human Resources Management ("HRM") staff. From a legal perspective, the primary focus of the investigation was to look for activity or practices that did not comply with Merit System Principles under 5 U.S.C. § 2310(b) or that constituted Prohibited Personnel Practices under 5 U.S.C. § 2302 (b).

In addition to interviewing Union officials, the investigators conducted 24 interviews, including the 14 complainants; HRM personnel, including the HR Specialist identified by the complainants; and CGB Front Office personnel (primarily those individuals who were involved in making hiring or selection decisions). The 14 complainants requested, and have been granted, confidentiality with regard to their complaints to the OIG. OIG also performed an extensive record review during the investigation, which included reviewing all 14 complainants' applications and resumes for all of the subject positions, along with all the applications and resumes of applicants that made the certs., or were selected for those positions, as well as reviewing additional information including, but not limited to, interview notes and e-mails among applicants and HRM employees or hiring officials.

<u>Quick Hire and HRM</u>. Quick Hire is an automated, Internet-accessible job posting and applicant submission system adopted by HRM during the latter part of 2004 and which was

fully implemented in 2005. Quick Hire was adopted, in part, in response to an effort by the Office of Personnel Management ("OPM") to automate federal hiring. A substantial number of federal agencies, including the Departments of Education, Energy, Justice, and Health and Human Services, have adopted Quick Hire.

Quick Hire job postings are developed by the hiring bureau, often with the assistance of HRM Specialists. Applications include multiple choice, essay and "yes" or "no" questions, all of which are assigned pre-determined weights by the hiring Bureau. Applicants are also asked to provide resumes that support the answers that they provide in the Quick Hire form. Applications are submitted through the Commission's "FCC Jobs" and the General Services Administration's "USA Jobs" web sites. Specialists review an application and take the responses to the multiple choices and yes/no questions at face value, while comparing the yes/no answers to information provided in the resume. HRM Specialists are required to look for blatant discrepancies between an applicant's application answers and the information provided on the applicant's resume. The specialists are also instructed to look for the applicant's specialized experience for the position. Essays are not used for computing the applicant's final score. The multiple-choice and yes/no questions are the only questions that are used to calculate the score, and Quick Hire calculates the score automatically, based upon the weights assigned by the hiring manager/Bureau.

OIG concluded that the Quick Hire process, although not perfect, does not appear to pose significant problems for applicants attempting to apply for jobs at the FCC. A few complainants had technical problems with the process. Most, however, did not understand how the Quick Hire ranking process worked. In particular, most applicants did not understand how answers are weighed or the importance of having (and demonstrating in the resume) the specialized experience required for a particular position. HRM has been adding essay questions to Quick Hire so that candidates must explain, in their own words, how they meet the specialized experience requirements for a posting. The evidence demonstrated that when a posting/position required a panel, a panel was seated and that the panel then developed the required cert. list.

During the period in question, the position of Chief of the HRM Recruitment and Staffing Center was vacant. HRM had four HR Specialists on staff, all of whom were certified, every two or three years, by OPM, and all of whom worked relatively independently. During the investigation it became clear that the HR Specialists in HRM were, and are, heavily overworked. This is particularly the case for the HR Specialist identified by the complainants, who described her workload over the relevant period as more than double her normal, heavy workload. This HR Specialist was described by HRM management and by CGB HR personnel as a very productive employee.

The investigators discovered that HRM does not have a Standards of Operations manual. This deficiency should be remedied promptly (we were informed a draft of a manual has been started and will be provided at a later date) so that HRM and its HR Specialists will have a readily available resource to enable them to perform their work consistently - especially when supervisors and other personnel are not available or are on leave. An "up to date" operations manual would tend to insure more consistent treatment of applicants, and a more consistent application of procedures, particularly in an environment where overworked HR Specialists attempt to address increasingly challenging work loads.

CAMS postings. Investigators noted that, not surprisingly, unsuccessful candidates often complain about not being selected for inclusion on a cert. list for a position. Investigators also observed that CAMS positions have, historically, generated more controversy than other positions.

This investigation confirmed that the complainants who objected to not making the CAMS cert. lists were not eligible to make the cert. lists for those positions. However, the investigation also established that the HR Specialist involved in a CAMS posting should not have worked on the posting for which a relative applied. As discussed more fully below, when HRM management became aware of that situation, HRM used disinterested HR personnel to conduct an independent re-evaluation of the application and found the applicant to be qualified at the GS-9 level. OIG's review of the application showed that the applicant had consumer dispute resolution experience and was marginally qualified for the position at the GS-9 level. That applicant, however, was not selected for a position. As a consequence, we concluded that there had been no prejudicial error, that HR management was aware of the problem, and that HR management has taken steps to ensure that this type of appearance of impropriety will not occur in the future.

OIG also concluded that the applicant chosen for the supervisory CAMS position had provided sufficient proof of qualifications to be offered that position. There was no evidence of pre-selection or wrong-doing on the part of the managers involved in the hiring process for that position.

Outreach postings. OIG concluded that, contrary to the contentions of the complainants and the Union, the cert. lists for the CEOS and IGA Outreach Liaison on postings were developed by a panel where required. As such, allegations of wrong-doing by the named HR Specialist on these postings were simply misplaced. With respect to the panel's determinations, when the panel's work was subjected to a second look (by a legal advisor in the CGB Front Office) only one complainant was added to the cert. list. The CGB reviewer determined that the candidate was marginally qualified. The reviewer's determination appears reasonable.

This investigation revealed that, with the exception noted above, the complainants who objected about not making the outreach certs or the outreach postings did not meet the qualifications for the certs and that the complainants who were not offered the job were properly evaluated in the hiring process. OIG found no evidence to suggest that, where applicable, a Veterans' Preference was not appropriately applied or considered.

Information Specialist posting. OIG concluded that the complainant applying for the information specialist position was not eligible to make the cert. list for that position.

Nepotism allegations. OIG determined that a HR Specialist did in fact work on a job posting for which a relative (a cousin) had applied, and that the relative was included in the CAMS GS-9 cert. The Specialist admitted it, acknowledged that it created at least the appearance of a conflict, and admitted he/she should not have worked on that posting. When HRM management learned of the conflict of interest, they removed the HR Specialist from working on that position. In addition, the HR Specialist, and other personnel in the entire HRM Recruitment and Staffing Center, were counseled regarding nepotism and appearance of conflict of interest concerns. HRM management also had all of the CAMS applications reviewed by two disinterested FCC HRM employees. Neither employee removed the cousin from the cert. OIG concluded that any taint of impropriety has been remedied by actions taken by HRM.

Summary of Recommendations. Based on its investigation, OIG recommended that HRM take the following actions:

(1) Develop and distribute a comprehensive Human Resources Policy Manual, including provisions specifically addressing nepotism and procedures to follow to avoid conflicts of interest;

(2) Develop and provide comprehensive training for all the HR personnel regardless of HR background, so that the FCC can ensure that all the HRM employees are aware of FCC specific rules and policies;

(3) Hire additional Human Resources Specialists to reduce case workload and help with customer service in responding to applicants (in this regard, we note that the position of Chief of the HRM Recruitment and Staffing Center was not filled until after this investigation had begun on the basis of the complaints that had been lodged with this office, and that the person who filled in on an

acting basis also had to fulfill the requirements of that person's other position as well);

(4) Institute more frequent management review of HR Specialist work in issuing cert. lists, and don't allow HRM management positions to go unfilled for such long periods of time (over two years in this case);

(5) Recognize that Self-Assessment Based Applications can be problematic and provide for specific, detailed demonstration of specialized experience in the Quick Hire form. We note that adding questions requiring the applicant to describe his or her specialized experience in numbered Quick Hire questions is a positive step that should be continued;

(6) Make Commission-wide training available as to how (and why) Quick Hire is used, explain what it does, how it does it, and what is required of applicants to successfully address the Quick Hire format and process; and

(7) Provide greater oversight of e-mail notifications so that applicants do not have the need to call HRM asking for status updates.

Conclusion. The decisions made by HRM and CGB in the matters reviewed appear appropriate under the circumstances and are supported by the evidence that was available. Other than the nepotism-related appearance of conflict of interest allegation, we discovered no evidence of wrong-doing. As noted above, HRM personnel have been counseled regarding nepotism and appearance of conflict concerns and any taint of impropriety appears to have been remedied by actions taken by HRM and CGB. There are, however, actions that should be taken to improve the operation of HRM that are described above.

Recent Universal Service Fund E-Rate Fraud Prosecutions in Which the FCC OIG Participated

1. Douglas and Mary Ann Elam Benit

In November, 2008, Douglas Benit, a former assistant superintendent at Ecorse Public Schools ("EPS") in Michigan, pleaded guilty to one count of mail fraud and one count of bank fraud. In March, 2009, Benit was sentenced to 46 months in prison and required to pay $1.34 million in restitution for his role in a fraudulent scheme to obtain money from the Detroit-area Ecorse Public School District, the E-Rate program, and TCF National Bank. Benit was ordered to pay approximately $490,000 in restitution to EPS and $850,000 in restitution to the Universal Service Administrative Company.

Benit was responsible for managing the construction of new facilities at EPS while hiding his affiliation with Coral Technology Inc. Benit recommended to the EPS school board that contracts be awarded to Coral, a company under Benit's control, thereby effectively steering the contracts to his own company. Funding for the contracts came from various sources, including the E-Rate program. Benit and his wife, Mary Ann Elam Benit, obtained a $200,000 line of credit from TCF National Bank through the submission of loan applications and documentation that overstated and misrepresented their personal and corporate assets and income.

The Benits were indicted by a federal grand jury in May, 2006. In March, 2009, Mary Benit pleaded guilty to bank fraud and was sentenced to one day of imprisonment to be followed by three years supervised release. Ms. Benit was also fined $10,864.92.

2. Tina Williams Brandon

In November, 2008, Tina Williams Brandon pleaded guilty to stealing E-Rate program funds. Brandon was accused of stealing a $73,310.14 check transmitted by the Universal Service Administration Company ("USAC") and intended for Brandon's employer, ACCESS Council, Canfield, OH. Brandon received the check in her capacity as Associate Director of the ACCESS Council. Brandon deposited the check into a checking account she created on-line in the name of Tina M. Williams and using the address of Brandon's mother. Brandon withdrew and spent all the money.

Brandon was convicted of one count of 18

U.S.C. §666, Theft from Program Receiving Federal Funds. She was sentenced in March, 2008 to five months in prison, to be followed by five months of house arrest, and two years of supervised release thereafter. Brandon was also ordered to pay restitution in the amount of $73,310.14 to ACCESS Council.

3. Ruben B. Bohuchot & Frankie Logyang Wong

In November, 2008, Ruben B. Bohuchot, the former Chief Technology Officer at the Dallas Independent School District ("DISD"), was sentenced to 11 years in federal prison and Frankie Logyang Wong, 46, a businessman from Houston, Texas, was sentenced to 10 years in federal prison. Bohuchot, and Wong were convicted on all counts of a federal indictment in July, 2008 following a three week trial concerning their operation of a bribery and money laundering scheme involving DISD technology contracts.

Bohuchot and Wong were each convicted of one count of conspiracy to commit bribery concerning a program receiving federal funds, one count of conspiracy to launder monetary instruments, and eight counts of bribery concerning programs receiving federal funds, and aiding and abetting. In addition, Bohuchot was convicted on one count of obstruction of justice and two counts of making false statements on tax returns. The two men will forfeit $1,192,263.90, which represents the proceeds of their conspiracy.

Wong co-owned and was the president of Micro Systems Engineering, Inc., ("MSE"), a computer reseller that provided computer products and services to large corporations and school districts. MSE was headquartered in Houston, with an office in Dallas. In his position as Chief Technology Officer at DISD, Bohuchot oversaw procurement of technology contracts for DISD. Bohuchot provided Wong and his company, MSE, with insider information, enabling MSE to obtain two contracts with DISD worth approximately $120 million. Wong and MSE paid bribes to Bohuchot that included exclusive use of two sport-fishing vessels worth over $1 million, payment for entertainment expenses, travel, and cash payments.

During the investigation into Bohuchot and Wong's conspiracy, Bouchot attempted to persuade his son-in-law to provide false grand jury testimony regarding the nature of certain cash payments.

4. Joseph E. Mello

In November, 2008, the FCC debarred Joseph E. Mello from participation in the E-Rate program for a period of three years. From October, 2003 through March, 2004, Mello, as Vice President of Operations for Innovative Network Solutions, agreed to accept invoices submitted by fictitious companies for work purportedly performed on E-Rate funded school district projects in Connecticut. These false invoices resulted in payments in excess of $600,000 that were ultimately submitted to the Universal Service Administrative Company as legitimately reimbursable services under the E-Rate program. In June, 2008, after Mello pleaded guilty to mail fraud and subscribing a false tax return, he was sentenced to 18 months in prison, to be followed by three years of supervised release, with the first 12 months spent in home confinement. Mello, along with one of the participants in the scheme to defraud the E-Rate program, was ordered to pay restitution in excess of $600,000. Mello was also ordered to pay back taxes, plus penalties and interest, on income he earned as a result of the scheme, but not included on his 2004 income tax return.

5. Andre J. Hornsby

On November 25, 2008, Andre J. Hornsby was sentenced to six years in prison followed by three years of supervised release. In July, 2008, Hornsby was convicted by a federal jury of wire fraud, witness and evidence tampering, and obstruction of justice arising from a scheme to cause the Prince George's County (Maryland) Public Schools to award lucrative contracts to benefit close associates and himself. Hornsby was also ordered to pay fines totaling $20,000 and restitution of $70,000.

The Prince George's County Public Schools ("PGCPS") employed Hornsby as Chief Executive Officer and Secretary and Treasurer of the Board of Education for Prince George's County ("Board") beginning in June, 2003 until his resignation in May, 2005. Hornsby owned and operated Quality Schools Consulting, Inc., which assisted schools in preparing applications to secure funds under the federal E-Rate program. Cynthia Joffrion assisted Hornsby in providing these services. In the fall of 2003, PGCPS sought assistance with its E-Rate applications and used a Request for Proposals process, which resulted in PGCPS employees recommending awarding the contract to a Maryland-based certified minority contractor. Hornsby directed PGCPS personnel not to award the contract to the recommended contractor, and instead steered the contract to a nonexistent company, "Erate Managers D.B. Inc. ("Erate Managers")," purportedly operated by Joffrion, despite Joffrion's late bid proposal. Hornsby used his influence to increase the contract price Joffrion received. Hornsby and Joffrion agreed that Hornsby would receive half the proceeds from the E-Rate contracts. Joffrion began cooperating with the FBI in October, 2004 and a videotape of a meeting in December, 2004, showed that Hornsby arranged to receive more than $100,000 from Joffrion, and he took $1,000 in cash as a down payment. Hornsby also proposed various methods to evade detection of the payments. Additionally, Hornsby steered a lucrative school district contract to a company where his girlfriend worked as a sales representative.

When Hornsby learned of the federal investigation, he instructed PGCPS personnel to destroy back-up computer tapes containing his and other employee's e-mail. Additionally, Hornsby attempted to persuade Joffrion not to produce computer files used to create the commission-share agreement, despite a request for the files by grand jury subpoena.

6. Cynthia K. Ayer

In December 2008, Cynthia K. Ayer was sentenced to serve two years in prison and pay $468,496 in restitution for using the mail to submit fraudulent applications for E-Rate funding. Ayer was the former technology director for the Bamberg County School District One ("District") in Bamberg, South Carolina. Following a grand jury indictment in April, 2006, Ayer pleaded guilty in April, 2008 to committing mail fraud.

From April 1, 1999 until February 1, 2003, Ayer used her position as the technology director of the District to award technology contracts to her company, Go Between. She achieved this by submitting fraudulent applications for E-Rate funding of more than $3.5 million to USAC without a competitive bidding process. As a result of her scheme to defraud the E-Rate Program, Ayer fraudulently obtained $468,496 in payments from USAC. Ayer also caused USAC to mail her a $25,243 check made payable to her company, Go Between.

Ayer's restitution will be paid to USAC. Following Ayer's conviction, the FCC suspended her from participating in the E-Rate program and has commenced debarment proceedings.

7. R. Clay Harris

In December, 2008, R. Clay Harris was sentenced to five years in prison following a federal jury conviction on charges of bribery and conspiracy to bribe Arthur Scott, the former Director of Operational Technology/Telecommunication for the Atlanta Public Schools ("APS"). Harris paid more than $230,000 in bribes to Scott in exchange for steering E-Rate technology contracts towards Multimedia Communications Services Cooperation ("MCSC"), a business in which Harris was the chief executive officer and majority owner.

Between November, 2000 and November, 2002, Scott and other APS employees allocated E-Rate work to MCSC without requiring MCSC to submit competitive bids. Scott also submitted E-Rate funding applications requesting more than $38 million for MCSC to provide equipment and services to APS. In exchange for the favorable treatment on these contracts, Harris made more than $230,000 in payments to M&S Consulting, a business partnership between Scott and his wife, Evelyn Myers Scott. The payments to M&S Consulting ceased, however, when MCSC was forced to competitively bid for APS contracts in December, 2002 and was not selected to conduct further work for APS under the E-Rate program.

Scott and his wife pleaded guilty in May, 2007 and both testified against Harris at his trial. In addition to his prison sentence, Harris was ordered to pay, along with his co-conspirators, restitution in excess of $234,000. Following Harris' conviction, the FCC suspended Harris from participating in the E-Rate program and has commenced debarment proceedings against him.

8. Tucson Unified School District/Trillion Partners, Inc.

In January of 2009, the State of Arizona, through its Attorney General, filed a complaint alleging violations by the Tucson Unified School District ("District"), Guyton Campbell, Rudy Flores, Trillion Partners, Inc. ("Trillion"), E-Rate Consulting Services, L.L.C. ("ERC"), and Logical Choice Technologies, Inc. The Attorney General alleged violations of E-Rate Program Rules, state anti-trust laws, and state procurement laws.

The Attorney General alleged that District employees engaged in various improper activities including: improper contact and communication with prospective vendors before and during competitive purchasing and procurement processes; providing access to personnel and information to selected prospective vendors resulting in unfair competition during competitive purchasing and procurement processes; and accepting gifts and gratuities from current and prospective vendors. The Attorney General contended that Trillion and its employees conspired with ERC to restrain intrastate trade and influence the bidding process in favor of Trillion by communicating before and during the District's procurement process; and by agreeing to work together to ensure both Trillion and ERC obtained District contracts while also agreeing to influence the District's Requests for Proposals ("RFPs") to give Trillion an advantage over other prospective vendors. The Attorney General also alleged that Trillion conspired with Campbell and Flores to restrain intrastate trade and influence the bidding process by communicating both before, and during, the District's procurement process with Campbell, Flores and other District employees, its plans for telecommunications and technology projects (wide area networks and VoIP), and its RFPs, agreeing to evade statutes, rules, and policies on competitive purchasing and procurement processes, and agreeing to ensure that Trillion would be awarded a District contract. Furthermore, the Attorney General alleged that Trillion improperly provided gifts and gratuities to District employees. The State and the District entered into a consent judgment settling the claims in which the District agreed to provide training for its employees, pay $7,500 to partially reimburse the Attorney General for its attorney fees, and conduct bi-yearly audits of vendor relations and procurement practices at the District. The State and Trillion entered into a separate consent judgment to settle the Attorney General's claims, whereby Trillion agreed to annual reporting of its bidding for contracts with Arizona schools or government entities, and contacts with school or government entity employees, to adopt a code of conduct consistent with Arizona statutory requirements and to pay $250,000 to reimburse Arizona's costs and attorney fees.

9. AT&T Technical Services Corp.

In February, 2009, AT&T Technical Services Corp. ("AT&T-TSCO") agreed to pay more than $8.2 million as part of a civil settlement relating to allegations that the company violated the False Claims Act in connection with the E-Rate program. The United States contended that AT&T-TSCO engaged in non-competitive bidding practices for E-Rate contracts and overbilled the E-Rate program. The United States also alleged that AT&T-TSCO applied for and received E-Rate funds for goods and services that were ineligible for E-Rate discounts.

In addition to making certain payments, AT&T-TSCO agreed to enter into a compliance plan regarding E-Rate internal controls, monitoring, and audit requirements. OIG assisted in the investigation into fraud and anti-competitive conduct in the E-Rate program in Indiana that resulted in the agreed upon resolution of this case.

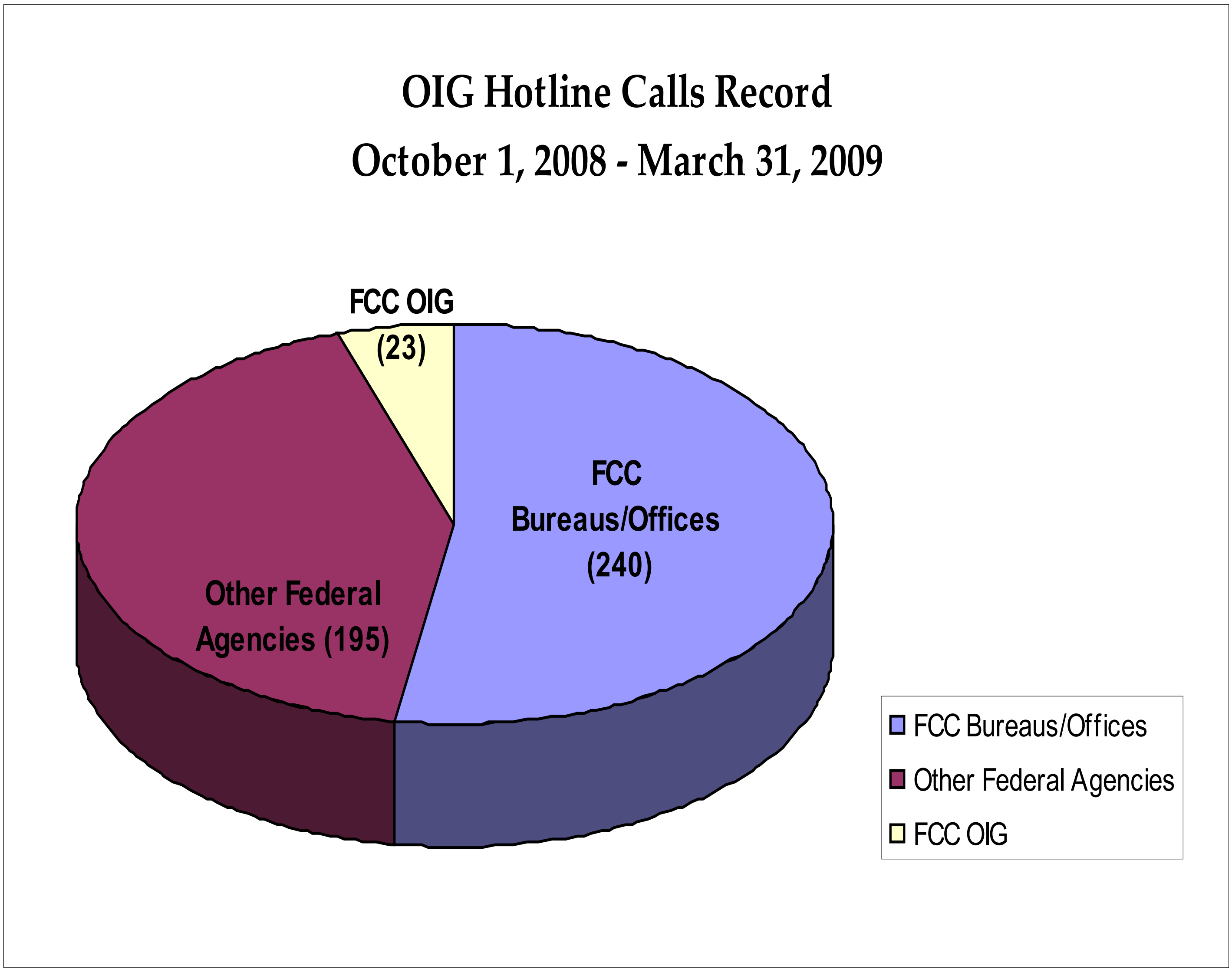
10. Tyrone Pipkin and Gloria Harper

Tyrone Pipkin, the North Chicago District 187 director of technology, and Gloria Harper, a member of the North Chicago District 187 school board, were arrested in March, 2009 on charges of three counts of forgery in Lake County Circuit Court, Illinois. State prosecutors allege that from January, 2002 through February, 2004, Pipkin and Harper forged the name of Bobby Joe Fox, a North Dakota school official, on an E-Rate application, invoicing, and procurement forms. Pipkin and Harper own Computer Training Associates and Global Networking Technologies, companies that pleaded guilty in September, 2008 to mail fraud and were ordered to pay $241,000 in restitution for allegedly using a North Dakota school district on the Fort Berthold Indian Reservation to defraud the E-Rate program.

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 are referred to the FCC Consumer Call 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 458 Hotline contacts, which resulted in the OIG taking action on 23 of these calls. The remaining calls were forwarded to the other FCC bureaus and offices, primarily the FCC Consumer Call Center (240 calls) and other federal agencies, primarily the Federal Trade Commission (195 calls).



… do ordain and establish this Constitution for the United States of America.

Reporting Requirements of the Inspector General Act

Reporting Requirements of Section 5(a)

Table I: OIG Reports with Questioned Costs

Table II: OIG Reports with Recommendations that Funds Be Put to Better Use

REPORTING REQUIREMENTS

The following summarizes the Office of Inspector General response to the 12 specific reporting requirements set forth in Section 5(a) of the Inspector General Act of 1978, as amended.

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

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

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

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

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

Except as noted above, no significant recommendations remain outstanding.

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

Please refer to the sections of this report titled "USF Oversight" and "Investigations."

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

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

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

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

7. A summary of each particularly significant report.

REPORTING REQUIREMENTS

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

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

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

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

The required statistical table can be found at Table II to this report and in the section captioned "Universal Service Fund."

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

No audit reports fall within this category.

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

No management decisions fall within this category.

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

No management decisions fall within this category.

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

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

REPORTING REQUIREMENTS

Table I: OIG Reports With Questioned Costs

Inspector General Reports With Questioned Costs	Number of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	–	–	–
B. Which were issued during the reporting period.	310	$56,004,305	–
C. For which a management decision was made during the reporting period.	310	$56,004,305	–
(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	–	– –	

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	–	–

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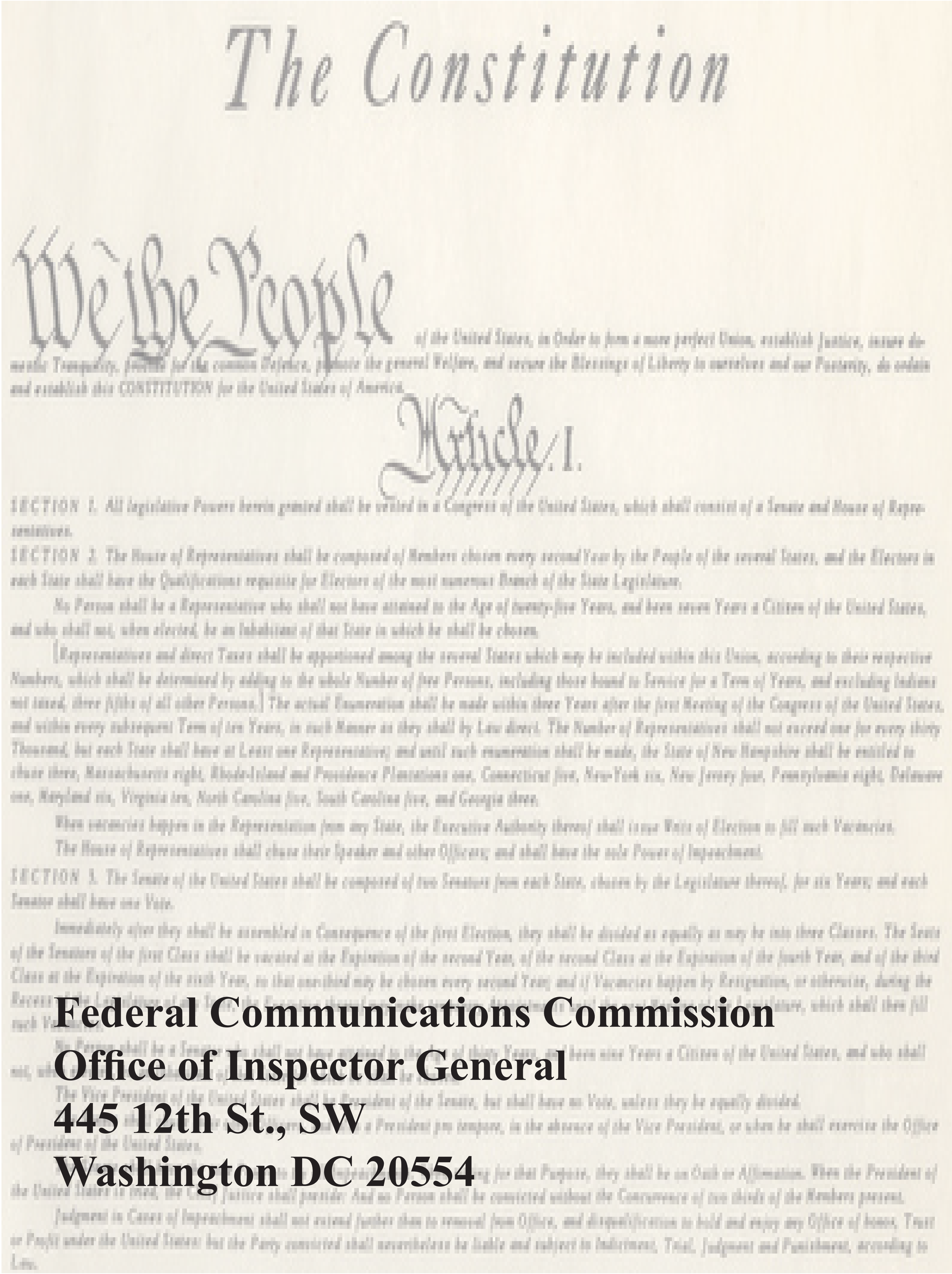
Federal Communications Commission
Portals II Building
445 12th St., S.W. Room 2-C762



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