



SEMIANNUAL REPORT TO CONGRESS
OCTOBER 1, 2006 - MARCH 31, 2007

KENT R. NILSSON
INSPECTOR GENERAL



**Federal Communications Commission
Headquarters Building**

Portals II Building

MEMORANDUM

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: April 30, 2007

REPLY TO
ATTN OF: Inspector General

SUBJECT: Semiannual Report

TO: Chairman, Federal Communications Commission

In compliance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App., I respectfully submit the Office of Inspector General (OIG) Semiannual Report summarizing the activities and accomplishments of the OIG during the six-month period ending March 31, 2007. In accordance with Section 5(b) of the Act, it would be appreciated if this Semiannual Report, along with the report that you prepare as Chairman of the Federal Communications Commission (FCC), were forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

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

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

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



Kent R. Nilsson
Inspector General

Enclosure

cc: Chief of Staff
Managing Director



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INTRODUCTION

The Federal Communications Commission (FCC) is an independent regulatory agency, which was delegated authority by Congress to regulate interstate and foreign communications by television, satellite, wire, radio and cable. The FCC's jurisdiction covers the fifty States, the District of Columbia and all U.S. territories.

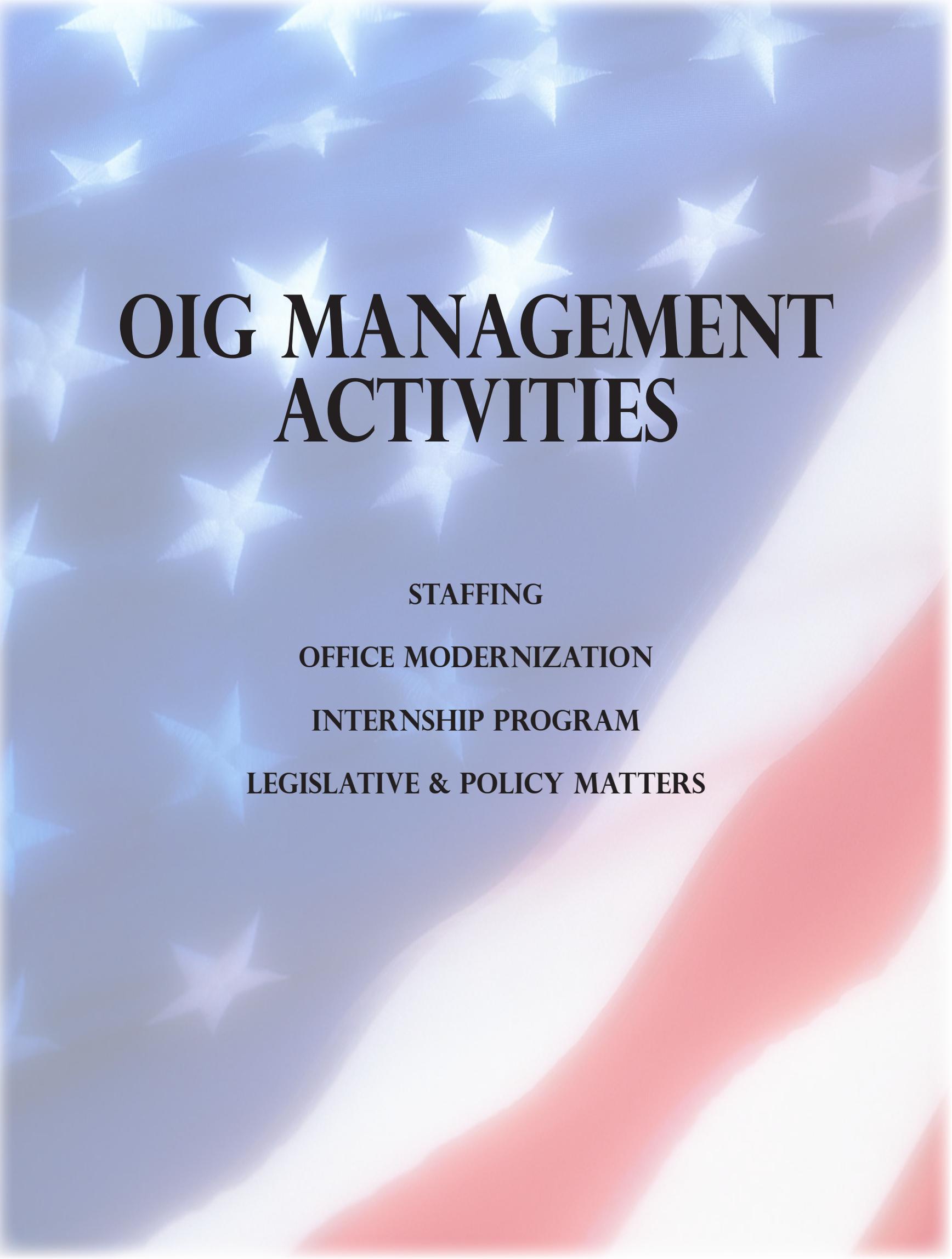
The FCC consists of a Chairman and four Commissioners, who are appointed by the President and confirmed by the United States Senate. Kevin J. Martin serves as Chairman. Michael J. Copps, Jonathan S. Adelstein, Deborah Taylor Tate and Robert M. McDowell serve as Commissioners. Most of the FCC's employees are located in Washington, D.C. at the Portals II building, which is located at 445 12th St., S.W., Washington, D.C. 20554. FCC field offices and resident agents are located throughout the United States.

The Inspector General (IG), Kent R. Nilsson, reports directly to the Chairman. The Office of Inspector General (OIG, or Office) staff consists of 21 professionals.

In response to requests by the Inspector General, Chairman Martin provided five professionals on detail from other FCC offices to assist with the IG's increasingly heavy workload. In addition, Chairman Martin authorized outside hiring authority to provide for permanent increases in the Inspector General's staff. Principal assistants to the IG are: Jon R. Stover, Deputy Inspector General; David L. Hunt, Assistant Inspector General (AIG) for Investigations/General Counsel; Curtis Hagan, AIG for Audits; William A. Hill, Jr., AIG for Universal Service Fund Oversight; Thomas Cline, AIG for Policy and Planning; and Harold Shrewsbury, AIG for Management.

This semiannual report includes the major accomplishments and activities of the OIG during the period from October 1, 2006 through March 31, 2007, as well as relevant information on the OIG's goals and future plans.



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OIG MANAGEMENT ACTIVITIES

STAFFING

OFFICE MODERNIZATION

INTERNSHIP PROGRAM

LEGISLATIVE & POLICY MATTERS

OIG MANAGEMENT ACTIVITIES

OFFICE STAFFING

Additional personnel, as well as funding to support the work of the Office, are essential to meeting the objectives of the Inspector General Act and fulfilling the responsibilities that are contained in section 0.13 of the Commission's rules. Even so, it has been possible to make progress because of the willingness of the Chairman and his staff to support the work of this Office. When the IG was appointed in January 2006, the Office had 10 professional employees. There are now 21 professionals and 2 support personnel. Of the 23 employees presently in the office, 20 have joined the office since January 2006. With each addition, the professional training, experience and personal commitment to eliminating fraud, waste and abuse has increased.

As we have previously reported, the IG requested 16 additional staff positions to support and perform quality assurance for audits in the Universal Service Fund (USF) area in the OIG's fiscal year 2007 budget request. These resources, how-

ever, have not been provided through the legislative process although they were recommended by the Chairman and included in the President's budget. For FY2008, we have requested additional staff positions and other resources. The Chairman has also supported this request and the Office of Management and Budget included a request for \$20.4 million and 19 FTE staff positions in the President's 2008 budget request. That request includes additional auditors, investigators, attorneys and information technology specialists due to a dramatic growth in investigative activities. Chairman Martin has also supported this request.

Our staff consists of well-trained, seasoned professionals, most of whom have one or more professional certifications. We support the efforts of our staff to expand their bodies of knowledge and professional recognition, and the Chairman has funded examination preparation for the Certified Public Accountant and Certified Information System Security Professional designations and other training opportunities.

OIG MANAGEMENT ACTIVITIES

In our continuing efforts to increase the expertise of our audits and investigative staff, members of this office have also attended training at the Inspector General Criminal Investigative Academy, other Federal Inspector General training events, master's level classes at colleges and universities, and other technical seminars. In addition, we have used our professional expertise to revitalize the FCC's professional training for its Certified Public Accountants.

OFFICE MODERNIZATION

We reported in the last semiannual report that the IG had decided to modernize the technological capability of the Office to insure that the OIG is prepared to process and manage the volume of audits and investigations planned for the USF, other OIG audit areas, and an increasing number of investigations. We reported on new equipment procurements and the assessment of new management information systems.

The modernization of the OIG's technology resources continues with the deployment

of 19" flat screen monitors for spreadsheets and installation of a new printer and digital transmitter. The IG is purchasing e-mail security software to enable investigators to send secure e-mails and documents through networks, and create security folders with access limited to pre-identified users. We are also planning to purchase a knowledge management system in 2008. This system is designed to leverage an integrated relational database to the controlled sharing of information among OIG personnel. The table-based design will permit dynamic modifications to the application, thereby facilitating control of both the content and the order of items displayed in drop-down lists. The Inspector General intends to implement this system to improve the Office's management of audits, investigations, inspections, surveys, and special studies, and to facilitate preparation of the semiannual report to Congress by both field and resident personnel.

OIG MANAGEMENT ACTIVITIES

INTERNSHIP PROGRAM

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

formance that, in part, has reflected their youth, exuberance, and special skills.

LEGISLATIVE & POLICY MATTERS

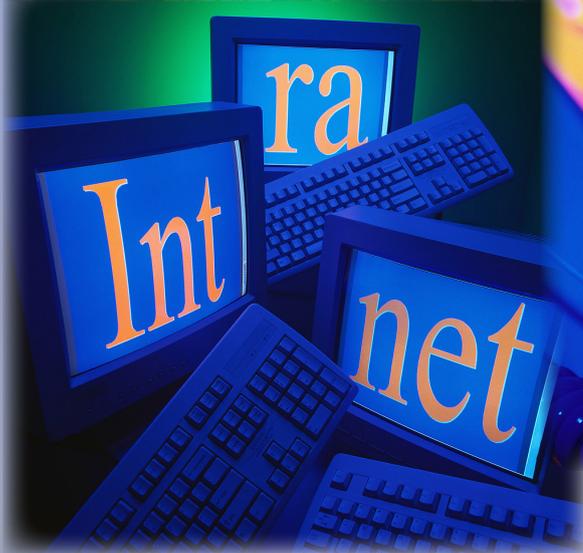
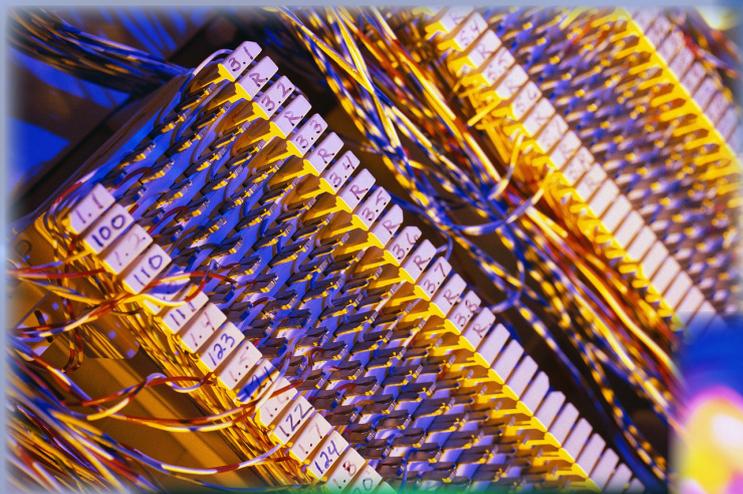
Pursuant to section 4(a)(2) of the Inspector General Act of 1978, 5 U.S.C.A. App. as amended (IG Act), our Office monitors and reviews existing and proposed legislative and regulatory items from the perspective of their impact on the OIG and the FCC's programs and operations. Specifically, we perform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

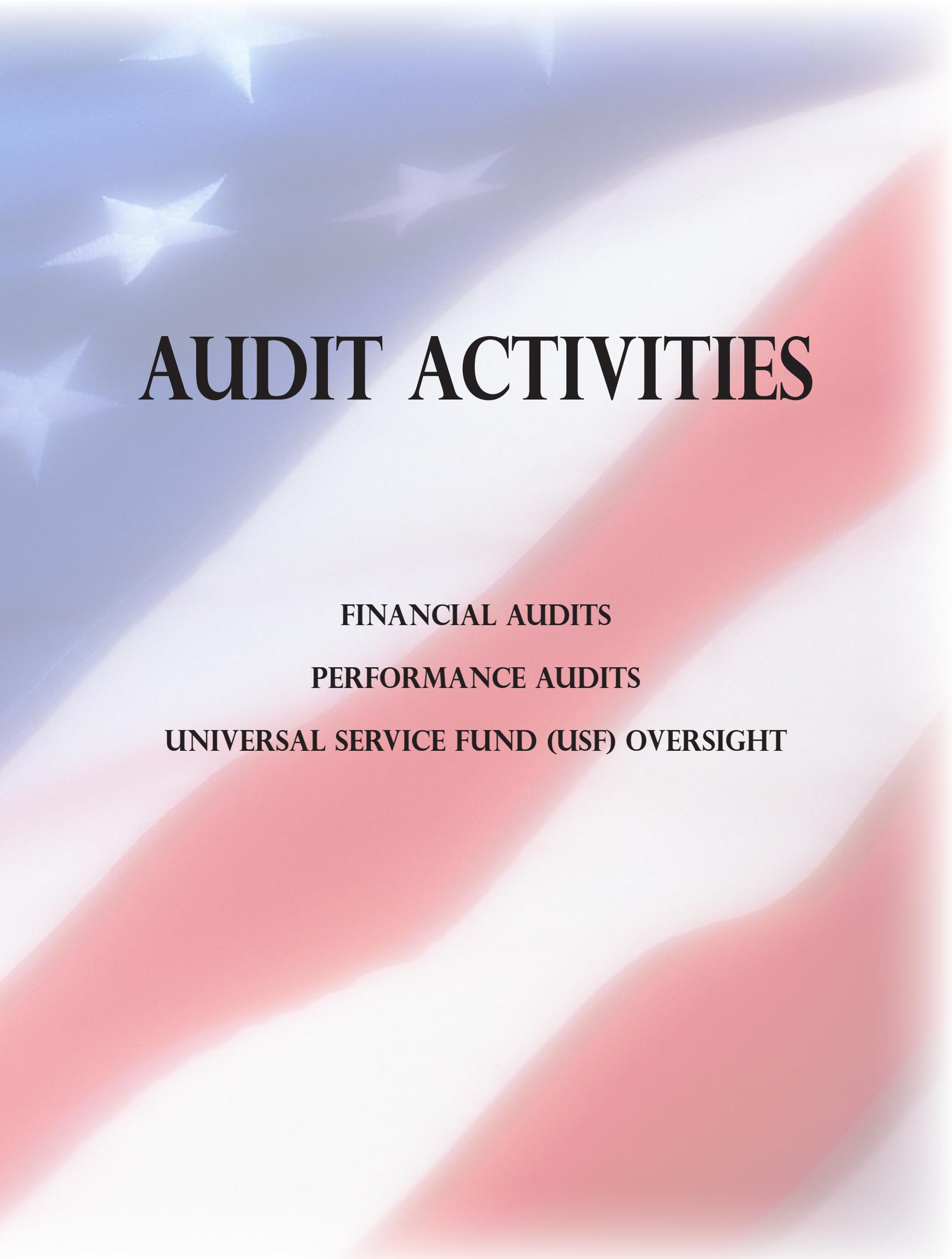
The Office continued to monitor legislative activities affecting the activities of the OIG and the FCC during this period. The Office specifically monitored over a hundred bills introduced in the 1st session of the 110th Congress, which directly or indirectly affect the ability of Designated Federal Entity IGs to function independently and objectively. Of particular interest to the Office

OIG MANAGEMENT ACTIVITIES

is Senate Bill No. 680, the “Accountability in Government Contracting Act of 2007,” which, if enacted, would impose substantial contracting and acquisition reforms. Similar bills have been introduced in the House of Representatives. This Office is closely monitoring and evaluating H.R. 928 and H.R. 1362, which contain many of the same objectives of Senate Bill No. 680. The Office is also closely monitoring numerous bills that have been introduced to revamp and streamline the administration of the Universal Service Fund (USF). In addition, the OIG continuously monitors FCC policy development and provides input as appropriate. In particular, this Office has commented on policy and procedural matters that directly relate to audit and oversight of agency functions and programs. The Office has frequently been consulted by the FCC’s management, operating bureaus, and other offices for its insights, opinions and expertise. During the reporting period, we commented extensively on proposed rules that will substantially improve the operation of the Universal Service and Telecommunications Relay Funds. We also reviewed and commented on agency directives for performance measurement initiatives and volunteer/community service by agency employees.





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AUDIT ACTIVITIES

FINANCIAL AUDITS

PERFORMANCE AUDITS

UNIVERSAL SERVICE FUND (USF) OVERSIGHT

AUDIT ACTIVITIES

FINANCIAL AUDITS

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

**Audit of the Federal Communications
Commission Fiscal Year 2006 Consoli-
dated Financial Statements
(Report No. 06-AUD-06-03 issued on
November 15, 2006)**

In accordance with the Accountability of Tax Dollars Act of 2002, the FCC prepared consolidated financial statements for the 2006 fiscal year in accordance with Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements. The Chief Financial Officers Act of 1990 (CFO Act), as amended, requires the FCC IG, or an independent external auditor selected by the Inspector General, to audit FCC financial statements in ac-

cordance with government auditing standards issued by the Comptroller General of the United States. Under a contract supervised by the IG, Clifton Gunderson LLP (CG-LLP), an independent certified public accounting firm, performed the audit of the FCC's FY 2006 consolidated financial statements in accordance with the aforesaid standards; OMB Bulletin No. 06-03, Audit Requirements for Federal Financial Statement, amended; and applicable sections of the U.S. Government Accountability Office (GAO)/President's Council on Integrity & Efficiency (PCIE) Financial Audit Manual.

We transmitted the final audit report prepared by Clifton Gunderson LLP and dated November 1, 2006 to the Commission's management. The financial audit report included an unqualified opinion on the financial statements, a report on internal controls and a report on the Commission's compliance with certain laws and regulations. In general, Commission management agreed with the findings and recommendations contained in those

AUDIT ACTIVITIES

reports. The highlights of each report have been summarized below.

Independent Auditor's Report on Internal Control over Financial Reporting

In performing its testing of internal controls necessary to achieve the objectives in OMB Bulletin No. 06-03, Clifton Gunderson LLP identified matters relating to significant deficiencies in the design or operation of the FCC's internal controls that, in its judgment, could adversely affect the FCC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. These matters were categorized as reportable conditions as defined by the American Institute of Certified Public Accountants. Clifton Gunderson did not consider any of the reportable conditions to be material weaknesses. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a

relatively low level the risk that misstatements in amounts that would be material in relating to the financial statements may occur and not be detected within a timely period by the employees in the normal course of performing their assigned functions.

Clifton Gunderson identified reportable conditions concerning the Agency's need to:

- Improve financial reporting
- Enhance cost accounting functionality
- Improve component entities' financial reporting controls
- Improve controls over payroll and personnel activities
- Fully implement the requirements of the Debt Collection Improvement Act
- Strengthen oversight of the component entities' activities
- Comply with OMB Circular No. A-130, Requirement for a Comprehensive Security Plan

AUDIT ACTIVITIES

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

Commission management is responsible for complying with laws and regulations applicable to the agency. To obtain reasonable assurance about whether the Commission's financial statements are free of material misstatements, Clifton Gunderson performed tests of compliance with certain provisions of laws and regulations to ascertain if a noncompliance existed that could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 06-03. As appropriate, Clifton Gunderson limited its tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the Commission.

Clifton Gunderson's tests disclosed instances of noncompliance with specific laws and regulations required to be reported under Government Auditing Standards and OMB Bulletin No. 06-03 as

follows:

- OMB Circular No. A-127, Financial Management Systems
- OMB Circular No. A-129, Policies for Federal Credit Programs and Non-Tax Receivables
- Debt Collection Improvement Act of 1996

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

During this reporting period, we also transmitted final reports covering the Commission's FY 2006 special-purpose financial statements and the agreed-upon procedures report covering the Commission's FY 2006 Federal intragovernmental activity and balances. Clifton Gunderson performed the engagements and we monitored their efforts to ensure compliance with Government Auditing Standards and other standards, as applicable. The Commission earned an unqualified opinion on its special-purpose financial statements. The auditor's report disclosed no material weaknesses in internal control

AUDIT ACTIVITIES



over the financial reporting process for the statements and no instances of non-compliance. The purpose of the intragovernmental activity and balances report was to compare and identify differences between the Commission's reconciliation of intragovernmental transactions with its trading partners and the Commission's audited financial statements for FY 2006. This report was provided to the U.S. Department of Treasury's Financial Management Service and the U.S. Government Accountability Office (GAO) as required by statute.

AUDIT ACTIVITIES

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 Services (TRS) program became effective on July 26, 1993, as an interstate cost recovery plan to reimburse telecommunications common carriers for providing telephone voice relay translation services within the areas in which they offer voice services. Approximately \$470 million are contributed annually to a dozen providers by 2,800 common carriers which are paid

by telephone customers through their monthly telephone bills. This program has not been subject to a comprehensive programmatic oversight audit by this Office. In addition, the Commission has not been able to calculate the estimated percentage of erroneous payments for the TRS program.

The IG initiated a series of audits that will provide the Commission and the IG with an independent and comprehensive examination and assessment of the FCC's TRS program administration and TRS provider compliance with 47 CFR §§ 64.601 - 64.605.

We completed a risk assessment of the FCC's TRS oversight requirements, program management functions, and the operations of the TRS administrator in 2006. Subsequently, we commenced a program of comprehensive audits of certified claims for payment from TRS providers. This involves audits of supporting documentation and other evidence at

AUDIT ACTIVITIES

NECA and service providers to determine whether improper reimbursements may have been made as a result of incorrect session minutes and/or reimbursement rates. The results of this audit program will determine the existence and extent of any improper payments and also support the basis for recovery of any improper payments.

Auctions

The FCC has conducted auctions of licenses for electromagnetic spectrum since 1994. These auctions are open to any eligible company or individual that submits an application and required up-front payment, and is found to be a qualified bidder by the Commission. FCC auctions are conducted electronically and are accessible over the Internet. The Auctions and Spectrum Access Division within the FCC Wireless Telecommunications Bureau (WTB) leads the FCC auctions program. Extensive coordination with other divisions of the FCC is required. The OIG has audited several auctions functions over the years, but we have yet to focus

a significant portion of our resources on auctions as a specific area of audit interest.

In fiscal year 2007, we initiated a risk assessment of the auction program. The objectives of this assessment are to identify and catalog processes for: (i) administering the auction program; (ii) assessing associated vulnerabilities and risks; and (iii) determining whether the written policies, procedures and controls for mitigating risks are sufficient. The opinions obtained from this risk evaluation will be used to determine whether additional audits targeted to specific risk areas within the Auctions Program are necessary or desirable.

Purchase and Travelers Credit Card Programs

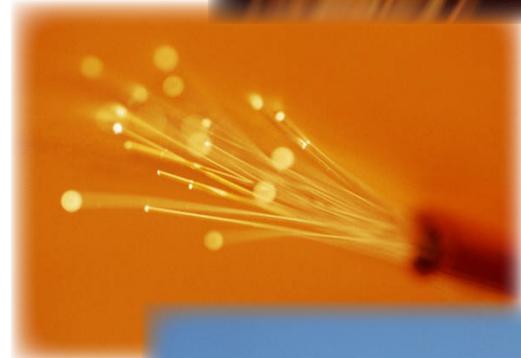
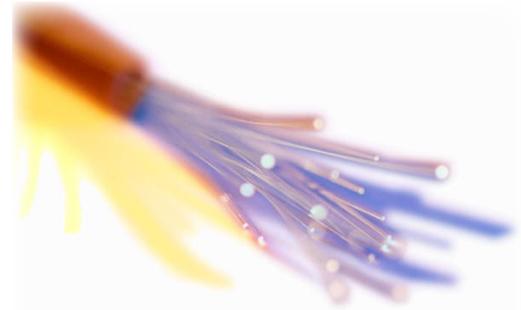
An audit of the Purchase and Travelers Credit Card programs within the FCC auctions program is in progress. The objectives of the audit are: (1) to determine whether the Purchase and Travelers Credit Card programs within the FCC auctions

AUDIT ACTIVITIES

program are operated in accordance with prudent managerial principles; and (2) to assess the effectiveness of WTB's internal controls over the Purchase and Travelers Credit Card programs within the auctions program.

Universal Licensing System

The Universal Licensing System (ULS) is a system used by the Wireless Telecommunications Bureau (WTB) to process hundreds of thousands of license applications annually. It has simplified the application and licensing processes and is intended to provide secure, world-wide access through the Internet. An audit of application controls over ULS intake, processing, storage, and reporting of data is in progress.



AUDIT ACTIVITIES

UNIVERSAL SERVICE FUND (USF) OVERSIGHT

Beginning with the Inspector General's semiannual report for the period ending March 31, 2002, the IG has included a section that covers the Office's efforts to oversee the Universal Service Fund (USF). In the last semiannual report, we stated that this Office has initiated an unprecedented audit effort of USF programs including the Schools and Libraries, High Cost, Rural Health Care and Low Income programs as well as audits of contributors to the USF fund. In this section, we provide an update on our oversight activities and on audits being conducted by other Federal Offices of Inspector General on our behalf. We also summarize related significant investigative activity.

For the first time, all of these programs and sources of revenue, have been subject to random statistical sampling and attest audits to determine whether these programs comply with the Commission's rules and regulations. In addition, the sampling methodologies and attest audit protocols were also developed to instantiate an assessment program consistent

with the Improper Payments Improvement Act of 2002, Public Law No. 107-300. It is the Inspector General's expectation that statistical analyses will improve the application of investigative and audit resources and yield information to the Commission that will enable it to improve the administration of these programs and further reduce fraud, waste and abuse.

Our involvement in contributor and beneficiary audits and investigations has not lessened our concerns about fraud, waste, and abuse in USF programs. We remain committed to meeting our statutory responsibility to provide effective, independent oversight of all aspects of the USF program. We believe we are making significant progress toward our goal of achieving an effective oversight program. Additional audit, investigative, and legal resources will facilitate achieving that objective and we accordingly request Congressional approval of the funding requests that are before it.

AUDIT ACTIVITIES

Update on OIG Oversight Activities

As of March 31, 2007, we are making significant progress on the 460 audits initiated during the prior reporting period. Audit fieldwork is complete for over 90% of the audits and draft audit reports are now being reviewed by four quality assurance firms, our Office and the Universal Service Administrative Company (USAC). All initial draft reports are to be submitted by April 30, 2007 and final reports are scheduled to be completed by July 31, 2007. To ensure that the July 31, 2007, deadline is met, we encouraged USAC to develop their program management capabilities to increase the probability that the audits will be completed as scheduled. As a result, USAC established a Project Management Office (PMO) with a Chief Operations Officer. The PMO function was outsourced to a professional program management consulting firm under the direction of USAC and subject to our oversight. The PMO developed a web-based data management system that provides: 1) web access for remote audit data input by each firm; 2) management

of audits through project plans; and 3) tracking of audit milestones and Earned Value Management reports.

We have also developed an audit sampling design to determine an error rate for improper payments in each of the four universal service programs and to determine whether contributors are properly charged for their USF contributions. USAC, in coordination with its contracted statistician from George Mason University and the FCC OIG statisticians, continue to work with accounting firms and the OIG to execute the statistical design as planned and deliver the error rate for improper payments. Additionally, statistical data concerning compliance or non-compliance with FCC rules, along with the reasons for non-compliance will be collected, analyzed and used to improve USF programs, contributions and the audit process.

As this new initiative unfolds, the OIG and USAC continue to review and finalize KPMG's previous audits of the Schools and Libraries program. To date,

AUDIT ACTIVITIES

we have finalized 95 of the 100 audits. We reviewed and released 44 audit reports in this reporting period that identified \$59,478,152 of apparently improper payments that were made in the Schools and Libraries program. The process of attempting to recover these funds is underway.

not complied with the Commission's rules. These audits also enable us to recommend changes to the FCC's management that will help to ensure that necessary controls to promote efficiency and to prevent fraud, waste, and abuse will be instantiated. A summary of the types of findings most frequently encountered in these audits are described in Table I below:

These audits identified several areas in which beneficiaries of USF funds have

Table I: Summary of E-rate Audit Findings

<i>Program Area</i>	<i>Related Finding</i>
Technology Budget	The beneficiary did not have proper approval for its budget or an adequate amount budgeted for its share of the non-discounted costs.
Equipment	Equipment missing, not installed, no asset lining maintained, etc.
Discount Calculation	Beneficiary incorrectly calculated its discount percentage, could not support the discount, or could not provide documentation to verify information on the FCC Form 471.
FCC Form 472/474 Items	Errors in amounts for reimbursement, inadequate support, etc.
Children's Internet Protection Act	Beneficiary did not comply with the Children's Internet Protection Act.
Service Provider Billing	Bills not properly prepared or inaccurate.
Document Retention	Beneficiary did not maintain the required documentation or documentation was non-existent.
Technology Plans	Beneficiary did not have an approved technology plan, technology plan was outdated, etc.
Ineligible Items	Beneficiary was reimbursed for ineligible products or services.
FCC Form 500	Beneficiary did not submit a Form 500 to USAC when the commitment was not fully utilized.

AUDIT ACTIVITIES

Table II is a list of the 44 E-rate audit reports issued by this office between October 1, 2006 and March 31, 2007.

Table II: E-rate Audit Reports Issued		Potential Improper Payment
Beneficiary	Location	
Fontana Unified School District	Fontana, CA	\$0
Advance Education Services	Colton, CA	\$177,665
Los Angeles Unified Public Schools	Los Angeles, CA	\$15,778
Municipal Telephone Exchange	Baltimore, MD	\$668,581
Orange County School District	Orlando, FL	\$112,500
Yonkers Public School District	Yonkers, NY	\$0
Brownsville Independent School District	Brownsville, TX	\$24,030
Fresno Unified School District	Fresno, CA	\$0
Florida Information Resource Network	Tallahassee, FL	\$2,096
Kayenta Unified School District 27	Kayenta, AZ	\$497,914
Miami-Dade County Public Schools	Miami, FL	\$9,105
United ISD	Laredo, TX	\$0
South San Antonio Independent School District	San Antonio, TX	\$16,195
Saginaw Public School District	Saginaw, MI	\$6,086
Detroit Public School District	Detroit, MI	\$16,144
Laredo Independent School District	Laredo, TX	\$0
Pharr - San Juan - Alamo Independent School District	San Juan, TX	\$3,135,350
Boston School District	Boston, MA	\$0
School Board of Broward County, Florida	Sunrise, FL	\$0
Boston, Dept of Neighbor Development	Boston, MA	\$0
Montgomery County School District	Montgomery, AL	\$1,110,077
Buffalo City School District	Buffalo, NY	\$58,647
South Carolina Division of the State CIO	Columbia, SC	\$0
Paramount Unified School District	Paramount, CA	\$0
Central ISLIP Union Free District	Central Islip, NY	\$445,543
Robstown Independent School District	Robstown, TX	\$128,252
Brooklyn Public Library	Brooklyn, NY	\$5,806
Camden City Public Schools	Camden, NJ	\$0
Teach Wisconsin	Madison, WI	\$0
Tucumcari	Tucumcari, NM	\$400,500
Trenton City School District	Trenton, NJ	\$1,405,419
Illinois State Board of Education	Springfield, IL	\$109,952
Boston Public Library/MBLN	Boston, MA	\$484,894
Milwaukee Public Schools	Milwaukee, WI	\$211,702
Georgia State Department of Education	Atlanta, GA	\$0
Jackson Public School District	Jackson, MS	\$343,315
Premont Independent School District	Premont, TX	\$201,259
St. Paul Public School District 625	St. Paul, MN	\$73,012
Kansas City School District	Kansas City, MO	0
Bridgeport School District	Bridgeport, CT	\$136,313
St. Louis City School District	St. Louis, MO	\$191,595
Garvey Elementary School District	Rosemead, CA	\$181,634
New York City Department of Education	New York, NY	\$48,330,341
Brevard County School District	Viero, FL	\$978,447
Total Potential Improper Payments		\$59,478,152

AUDIT ACTIVITIES

Audits Conducted by Other Federal OIGs

In June 2003 the OIG received a referral from the Government Accountability Office's Fraud Net requesting that an inquiry be conducted of the Brevard County School District (BCSD) based on an allegation of waste of government funds under the E-Rate Program. BCSD is located in Brevard County in central Florida. During November, 2003, the IG received a letter from a Florida State Representative requesting an investigation of allegations of misrepresentation in applications made to the E-Rate Program for Federal funding. In addition, USAC received several "hotline calls" from a variety of sources with similar allegations.

In response to the referral and inquiries, the OIG completed an audit of the BCSD, which was issued in October 2006. The audit resulted in six findings and identified \$978,447 in potential fund recoveries. We recommended that the Wireline Competition Bureau direct USAC to recover the improperly disbursed \$978,447. USAC has concurred with our recommendation and collection efforts are underway.

On January 29, 2003, the IG executed a Memorandum of Understanding (MOU) with the Department of the Interior (DOI) IG. This MOU was a three-way agreement among the FCC Managing Director, DOI IG, and USAC for audits of schools and libraries funded by the Bureau of Indian Affairs and other universal service support beneficiaries under the audit cognizance of the DOI OIG. Under the agreement, auditors from DOI OIG performed audits for USAC and the FCC IG. In addition to audits of schools and libraries, the agreement authorizes the DOI IG to consider requests for investigative support on a case-by-case basis. DOI OIG has submitted two audits to the IG. One was an audit of the Bureau of Indian Affairs (BIA) and the other was an audit of the Virgin Islands Department of Education (VIDOE). We have issued draft reports and received comments on the draft reports for these audits. The VIDOE report will not be issued at this time. The final report on the BIA audit is still under

AUDIT ACTIVITIES

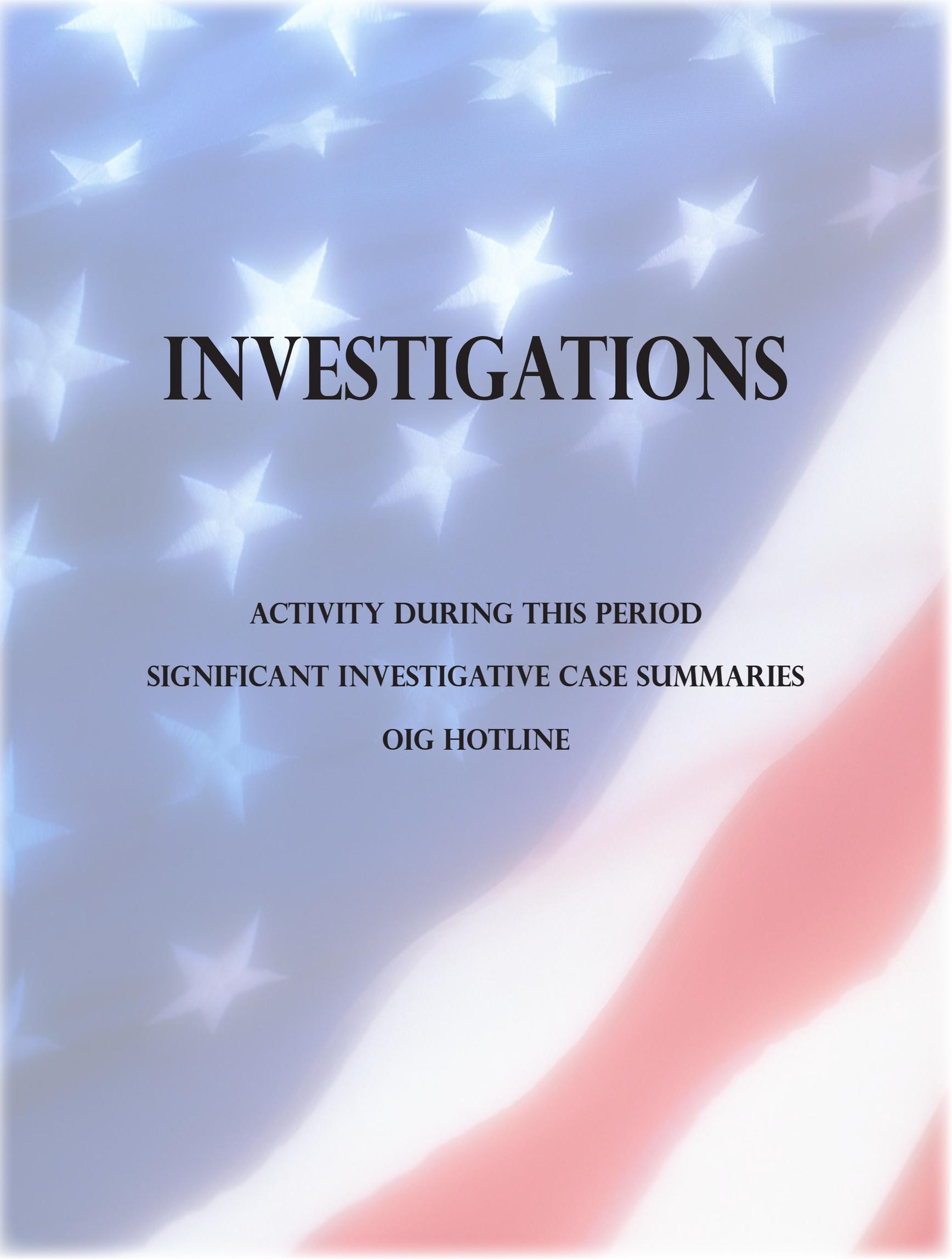
review.

We have also established a working relationship with the Office of Inspector General at the Education Department (Education OIG). During January 2004, the Education OIG presented a plan for auditing telecommunication services at the New York City Department of Education (NYCDOE). Because of the significant amount of E-rate funding for telecommunication services at NYCDOE, Education OIG has proposed that they be reimbursed for this audit under a three-way MOU similar to the existing MOU with DOI OIG. We received USAC comments on the draft report in January, 2007 and issued the report during March, 2007. The audit disclosed that NYCDOE could not provide supporting documentation for \$47,755,360 of the E-Rate funds disbursed during the period under audit. The audit also disclosed \$536,800 paid for ineligible telecommunications services and \$38,181 paid for telecommunications services for ineligible entities. USAC has been directed to initiate recovery of any improper

payments.

Support to Investigations

In addition to the audit component of our oversight program, we have provided, and continue to provide, audit and investigative support to Federal investigations of E-rate recipients and service providers. To implement the investigative component of our plan, we developed a working relationship with the Antitrust Division of the Department of Justice (DOJ). The Antitrust Division, in turn, has established a task force to conduct USF investigations that is comprised of attorneys in each of the Antitrust Division's seven field offices and the National Criminal Office. As of the end of this reporting period, we are directly supporting 28 investigations and monitoring an additional 3 investigations. Please refer to the Investigations section of this report for further information.

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INVESTIGATIONS

ACTIVITY DURING THIS PERIOD

SIGNIFICANT INVESTIGATIVE CASE SUMMARIES

OIG HOTLINE

INVESTIGATIONS

Investigations pursued by this office are frequently initiated as a result of allegations received through the OIG hotline, or from FCC managers and employees who contact the OIG directly. Allegations can be, and frequently are, made anonymously. Investigations may also be predicated upon audit or inspection findings of fraud, waste, abuse, corruption, or mismanagement by FCC employees, contractors, and/or subcontractors or through referrals from other governmental agencies.

The OIG works directly with Federal criminal authorities, supporting either their investigations or having these agencies support this office with resources unavailable within the FCC. Upon receiving an allegation of an administrative, civil, or criminal violation, the OIG usually conducts a preliminary inquiry to determine if an investigation is warranted. Investigations may involve possible violations of Federal regulations regarding employee responsibilities and conduct, Federal criminal law, and other regulations and statutes pertaining to the activities of the Commission. Investigative findings may

lead to criminal or civil prosecution, or administrative action, or all of the foregoing.

The OIG also receives complaints from the general public, both private citizens and commercial enterprises, about the manner in which the FCC executes its programs and conducts its oversight responsibilities. All complaints are examined to determine whether there is any basis for OIG audit or investigative action. If nothing is alleged that is within the jurisdiction of the IG, the complaint is usually referred to the appropriate FCC bureau or office for response directly to the complainant. The OIG continues to serve as a facilitator with respect to responses to complaints that are outside the jurisdiction of this office. Finally, matters may be referred to this office for investigative action from other governmental entities, such as the Government Accountability Office, the Office of Special Counsel, and various congressional offices.

As reported in the previous semiannual report, this office has been working to ad-

INVESTIGATIONS

dress an upsurge in cyber crime investigations. This trend has continued, and is absorbing substantially more investigative resources. This upsurge, as well as an increasing number of investigations likely to result from the thirteenth-fold increase in USF audits that are being conducted, highlights the budgetary needs for the \$20.4 million and staff positions referred to in this, and previous reports.

In addition to the foregoing, the OIG continues to coordinate and provide assistance to Federal civil and law enforcement entities, as well as to state and local authorities, with respect to investigations pertaining to infractions within the Universal Service Fund program of the Commission. These efforts led to the successful prosecution of the first criminal E-Rate trial in February.

ACTIVITY DURING THIS PERIOD

Fifty-eight (58) cases were pending from the prior period. Thirty-seven (37) 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 Department of Justice. An additional twenty (20) non-USF and four (4) USF related complaints were received during the current reporting period. Over the last six months, twenty-one (21) cases, ten (10) USF and eleven (11) non-USF related, have been closed. A total of sixty-one (61) cases are pending, of which thirty-one (31) relate to the USF program. The OIG continues to monitor, coordinate and/or support activities regarding those thirty-one (31) investigations. The investigations pertaining to the pending thirty (30) non-USF cases are ongoing.

Statistics	
Cases Pending as of September 30, 2006	58
New Cases	24
Cases Closed	21
Cases Pending as of March 31, 2006	61

INVESTIGATIONS

SIGNIFICANT CASE SUMMARIES

The investigation that the IG initiated regarding allegations of inappropriate conduct by individuals at the FCC, past and present, concerning the possible destruction and/or suppression of draft studies or reports regarding localism and media ownership continues. Additional resources, both in terms of personnel and material, were requested by the IG specifically to support this investigation. The Chairman provided those resources, allowing this Office the means by which to address the many issues raised by Senators Barbara Boxer, Byron Dorgan, and Ron Wyden, as well as the inquiries from Members of Congress Grace Napolitano, Xavier Becerra, David Price, Maurice Hinchey, and Michael R. McNulty, to name a few. In general, localism addresses the issue of whether locally-owned television or radio stations produce more local news. Media ownership addresses, generally, multiple media ownership concentration in market-defined outlets.

In February 2007, the first E-Rate jury trial

ever was successfully concluded. The jury in a Federal court, before the Honorable Judge Crane, in McAllen, Texas convicted Rafael G. Adame, president and owner of ATE Tel Solutions, Inc., on seven counts of wire fraud in a scheme to defraud the E-rate program. Adame was convicted of submitting false invoices for payment over a multi-year period. These monies were to benefit the Weslaco Independent School District. The trial was conducted by the Department of Justice, Antitrust Division out of Dallas. A sentencing hearing is currently scheduled for July 2007.

During this period, the OIG continued an investigation regarding the complaint process within the FCC. Specifically, the Assistant Inspector General for Investigations is looking into the computer support and management of software development. Complaints from the public that come into the FCC are typically the first contact that complainant has had with the FCC. To the public at large, this is their first interaction with the FCC and it is critical that the process be easy to understand

INVESTIGATIONS

and that all complaints are addressed in a fair and timely manner.



The Assistant Inspector General for Investigations continues to monitor developments resulting from the restraining order issued to halt the unfair business practices of an online check processing firm. The online firm allowed checks to be created and sent to any bank account without verifying that the customer had the authority to write checks drawn on that account. The FCC, and several other Federal agencies, had to fend off multiple attempts to procure Federal monies via this online activity.



During this period, the Assistant Inspector General for Investigations initiated an inquiry into an allegation that a file from the FCC's Reference Room could not be located. This investigation is ongoing.



During this period, the Assistant Inspector General for Investigations concluded

an inquiry into allegations of cyber attacks upon FCC personnel from outside the Commission. One such attack involved the distribution of private, non-public information of an FCC employee. This office coordinated with the Department of Homeland Security and various State agencies, and was able to officially close this investigation.



In February 2007, Richard E. Brown and Keith J. Madeiros, former account managers for Southwestern Bell Communications, pleaded guilty in the U.S. District Court in Hartford, Connecticut, to three counts and one count, respectively, of mail fraud in connection with a scheme to defraud the E-rate program by submitting false invoices. Both men are awaiting sentencing.



During this period, the Assistant Inspector General for Investigations concluded an inquiry into a harassment allegation from within the FCC. Harassing letters were left at odd hours for one FCC employee.

INVESTIGATIONS

During the investigation, statements were taken from numerous sources. Based upon those statements, the investigation was officially closed.



In the previous reporting period, the IG described an inquiry into allegations of procurement fraud involving an FCC employee. This inquiry resulted in a criminal fraud referral to the Federal Bureau of Investigation, but we have not received further updates. We will continue to monitor this referral until the statute of limitations expires.



In the previous reporting period, the IG described an inquiry into allegations of improper conduct by a Commission employee with respect to the possession of private information concerning a group of Commission employees. That inquiry has yielded no additional probative information. This investigation will be kept open until we finish working with Federal law enforcement agencies on this matter.

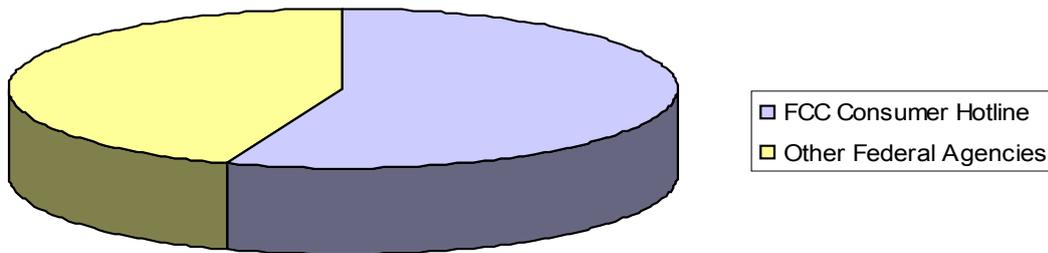
OIG HOTLINE

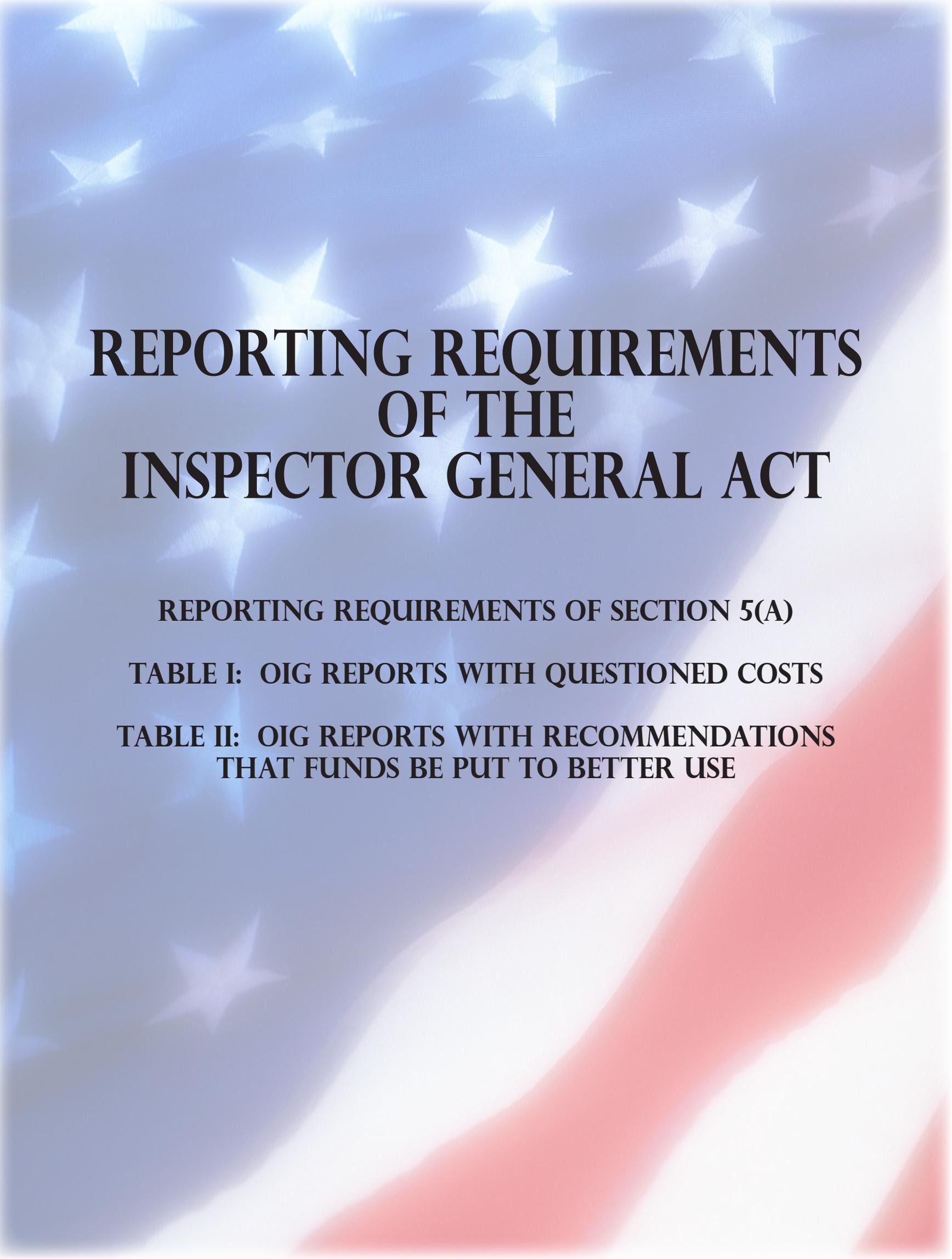
During this reporting period, the OIG Hotline technician received numerous calls to the published hotline numbers of (202) 418-0473 and 1-888-863-2244 (toll free). The OIG Hotline continues to be a vehicle by which Commission employees and parties external to the FCC can contact the OIG to speak with a trained Hotline technician. Callers who have general questions or concerns not specifically related to the missions or functions of the OIG office are referred to the FCC Consumer Center at 1-888-225-5322. In addition, the OIG also refers calls that do not fall within its jurisdiction to other entities, such as other FCC offices, Federal agencies and local or state governments. Examples of calls referred to the Consumer Center or other FCC offices include complaints pertaining to customers' phone service and local cable providers, long-distance carrier slamming, interference, or similar matters within the program responsibility of other FCC bureaus and offices. During this reporting period, we received 510 Hotline calls. The majority of these calls

INVESTIGATIONS

were forwarded to the FCC Consumer Center (284 calls) and the balance of calls were referred to other Federal agencies, primarily the Federal Trade Commission (226 calls).

Hotline Calls Record
October 1, 2006 - March 31, 2007



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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 entitled "Universal Service Fund" on pages 17 through 22.

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

Please refer to the Section of this report entitled "Universal Service Fund" on pages 17 through 22.

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

No significant recommendations remain outstanding.

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

Please refer to the Section of this report entitled "Universal Service Fund" on pages 17 through 22 and "Investigations" on pages 23 through 29.

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 of this report.

7. A summary of each particularly significant report.

Each significant audit and investigative report issued during the reporting period is summarized within the body 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.

REPORTING REQUIREMENTS

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

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

10. A summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period (including 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.	30	\$11,722,792	\$47,755,360
C. For which a management decision was made during the reporting period.	30	\$11,722,792	\$47,755,360
(i) Dollar value of disallowed costs	-	-	-
(ii) Dollar value of costs not disallowed	-	-	-
D. For which no management decision has been made by the end of the reporting period.	-	-	-
Reports for which no management decision was made within six months of issuance.	-	-	-

REPORTING REQUIREMENTS

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

Report Fraud, Waste or Abuse to:

**Office of the Inspector General
Federal Communications Commission**



You are always welcome to write or visit.

Federal Communications Commission

Portals II Building

445 12th St., S.W. –Room #2-C762

Federal Communications Commission
Office of the Inspector General



445 12th St., SW
Washington, DC 20554

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