The Federal Communications Commission

Left to Right:

Commissioner Ajit Pai, Commissioner Mignon Clyburn, Chairman Tom Wheeler, Commissioner Jessica Rosenworcel, Commissioner Michael O’Rielly
DATE: March 31, 2015

TO: Chairman Tom Wheeler, Federal Communications Commission
Commissioner Mignon Clyburn
Commissioner Jessica Rosenworcel
Commissioner Ajit Pai
Commissioner Michael O’Rielly

FROM: Inspector General

SUBJECT: Semiannual Report to Congress

In accordance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. 3 § 5, I have attached my report summarizing the activities and accomplishments of the Office of the Inspector General (OIG) during the six-month period ending March 31, 2015. In accordance with Section 5(b) of that Act, it would be appreciated if this report, along with any associated report that you prepare as Chairman of the Federal Communications Commission (FCC), were forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

This report describes audits that have been completed during the preceding six months, as well as those that are in process. OIG investigative personnel continued to address issues referred to this office from a variety of sources including the Department of Justice, and to pursue proactive (self-initiated) investigations. Where appropriate, investigative and audit reports have been forwarded to the Commission's management for action.

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

David L. Hunt
Inspector General

Enclosure
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INTRODUCTION

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

The FCC consists of a Chairman and four Commissioners, who are appointed by the President and confirmed by the United States Senate. Tom Wheeler serves as the Chairman. Mignon Clyburn, Jessica Rosenworcel, Ajit Pai and Michael O’Rielly serve as Commissioners. Most of the FCC's employees are located in Washington, D.C. at the Portals II building, which is located at, 445 12th St., S.W., Washington, D.C., field offices and resident agents are located throughout the United States.

The Office of Inspector General (OIG) is dedicated to ensuring compliance with the requirements of the Inspector General Act of 1978, 5 U.S.C.A. App. as amended (IG Act) and assisting the Chairman in his continuing efforts to improve the effectiveness and efficiency of the Commission. In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Inspector General (IG), David L. Hunt, reports directly to the full Commission. Management matters are coordinated with the Chairman’s office. Principal assistants to the IG are: Thomas C. Cline, Deputy IG; Robert McGriff, Acting Assistant Inspector General (AIG) for Audits; Harold F. Shrewsberry, AIG for Management; and Jay C. Keithley, AIG for Investigations.

This semiannual report includes the major accomplishments and activities of OIG from October 1, 2014 through March 31, 2015, as well as information on the IG’s goals and future plans.
OFFICE OF MANAGEMENT

Office Staffing

OIG is comprised of 31 Full Time Equivalent (FTE) professional staff, and eight FTE support staff. OIG recently initiated hiring actions for a budget analyst and four auditor positions with other hiring actions in process, including additional support for investigations. The current and future OIG budgets reflect our hiring needs as we continue to work toward staffing in the range of 56-60 FTEs. These expanded resources will enable us to address more and more complex areas of oversight, and we appreciate the support Congress has given us for our staffing needs.

Our professional staff consists of well-trained, experienced professionals, most of whom have one or more professional certifications. In our continuing efforts to increase the expertise of our auditors, attorneys, investigators, and administrative staff and to meet the training requirements of our professional standards, members of this office have attended classes at the Federal Law Enforcement Training Center, the Inspector General Criminal Investigative Academy, other Inspectors General training programs and other relevant venues.

OIG initiated an in-house training program to save travel funds and increase the quality of training. Two sessions were done during this reporting period and another is scheduled for April 2015. This method of training brings the instructors into the office where they can train staff as a team with specific attention to the work of OIG. Additionally, OIG offers training to non-OIG personnel if there are available slots.

OIG outsources various acquisition functions to the Department of Interior (DOI) in lieu of using agency procurement services. This provides OIG a higher level of independence when contracting is required to meet audit and investigation business requirements. The process has been successful overall, and we plan to continue outsourcing acquisition requirements with DOI.

OIG has completed the initial draft for the OIG Fiscal Year 2017 budget submission. Currently, the FY 2017 budget request is at the same funding level as the FY 2016 request.

Internship Program

OIG welcomes college interns throughout the calendar year. Our interns have come from schools across the country. These internships have proven to be rewarding experiences for all participants. Students leave with a good understanding of how a government agency operates, and they have the opportunity to encounter challenges while enjoying the rewards that can come from public service. In turn, OIG has benefited from the students’ excellent work performance.
Pursuant to section 4(a)(2) of the IG Act, OIG monitors and reviews existing and proposed legislation and regulatory proposals for their potential impact on OIG and the FCC’s programs and operations. Specifically, we perform this activity to evaluate legislative potential for encouraging economy and efficiency while helping to reduce fraud, waste, abuse, and mismanagement.

During the reporting period, the IG and OIG staff participated in several meetings and delivered responses to Congressional inquiries on a variety of topics, and reviewed legislation to determine the impact on the agency and on OIG. The FCC’s recent Net Neutrality rules (approved by the Commission on February 26, 2015 and published in the Federal Register on April 13, 2015) generated several discussions with many parties in Congress.

Additionally, the IG’s testimony before the U.S. House of Representatives Subcommittee on Communications and Technology under the Committee on Energy and Commerce, in which he addressed concerns about the agency’s interference with OIG staffing and with investigative proceedings, also resulted in several follow-up discussions and correspondence with Congressional offices. On February 27, 2015, we met with a bipartisan group of staffers from the U.S. Senate Commerce Committee to discuss an overview of OIG and several topics of interest. OIG wishes to express our appreciation that members of Congress have shown in learning about the issues here at the FCC and within OIG, and we affirm our desire to address these concerns with Congress effectively and candidly.

As part of this exchange of information, we provided responses to Congressional inquiries regarding open and closed investigations and audit results. On February 27, 2015, Senators Charles E. Grassley and Ron Johnson requested we initiate reporting on closed investigations, evaluations and audits that have been conducted by this office and not disclosed to the public, on a semiannual basis. On February 11, 2015, Representatives Jason Chaffetz, Chairman, and Elijah E. Cummings, Ranking Member, of the U.S. House of Representatives Committee on Oversight and Government Reform requested information on audit recommendations and related cost savings. Our responses to these requests were issued after the end of the reporting period, but again, we welcome the opportunity to share information on our work with Congress.

Legislation significant to the work of OIGs was passed or drafted during the reporting period, and OMB issued guidance on other statutes. We reviewed OMB’s draft guidance on implementing the Federal Information Technology Acquisition Reform Act of 2014 (FITARA). We also reviewed OMB’s draft guidance on implementing the Digital Accountability and Transparency Act of 2014 (DATA Act) (Pub. L. 113-101), paying particular attention to IG reporting requirements. We reviewed the draft Inspector General Empowerment Act of 2015 introduced in the U.S. Senate on February 26, 2015.
OFFICE OF MANAGEMENT

Modernization Projects

OIG Information Technology Network Independence

OIG information technology (IT) is on the FCC network but segregated in order to protect OIG data from compromise. We have installed a Network Attached Storage (NAS) device in the FCC data center that does a real time backup of OIG data. This is in addition to the FCC network backup function. We also installed a NAS device in the Gettysburg data center and OIG data is backed up daily at this remote location. This gives OIG two more layers of data backup in addition to the FCC network backup function.

We are now mapping the process for accessing the Gettysburg data center, allowing OIG staff to log in to that location in case of an emergency at FCC Headquarters that renders the local data center inaccessible. Work is still being done to establish email and data backup protocols which will be in addition to, and more robust than, current FCC procedures.

OIG Electronic Records Management

In cooperation with FCC IT staff, we have purchased a commercial records management system, Alfresco, and are deploying the system on the network for operational and end-user testing. This system will go into full operation during the next reporting period. Leveraging OIG’s initiative in this area, the agency plans to use this system agency wide for electronic records management.

Office Space

OIG office space is in an unsecured area on the 2nd floor of FCC Headquarters building. Agency employees have open access the OIG office area. OIG and FCC have developed a plan for securing OIG space and submitted the plan to the General Services Agency for approval. We will update the status of this matter in future reporting.
OFFICE OF AUDIT

Under the authority of the IG Act, as amended, the OIG Office of Audit (OA) conducts independent and objective audits, inspections and related activities designed to promote economy, effectiveness and efficiency in FCC programs and operations and to prevent and detect fraud, waste and abuse. Audits, inspections and other activities are conducted in accordance with relevant professional standards.

OA includes two reporting divisions - the Operations, Financial, and Information Technology Division (OFID) and the Universal Service Fund Oversight Division (USFD).

Highlights of the work conducted by the OA during the current semiannual reporting period are provided below.

Operations, Financial, and Information Technology Division

OFID conducts audits, inspections, evaluations, and other reviews designed to promote economy and efficiency in FCC operations and to prevent and detect fraud, waste and abuse. Mandatory assignments include the annual financial statement audit, the Federal Information Security Management Act (FISMA) evaluation, and the Improper Payments Elimination and Recovery Act compliance audit. Due to limited staffing, many audits are contracted out to independent public accountants.

Completed Audits and Other Projects

Audit of the FCC Fiscal Year 2014 Consolidated Financial Statements

In accordance with the Accountability of Tax Dollars Act of 2002, the FCC prepared consolidated financial statements for the 2014 fiscal year in accordance with Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements, and subjected them to audit. The Chief Financial Officers Act of 1990 (CFO Act), as amended, requires the FCC IG, or an independent external auditor selected by the Inspector General, to audit the FCC financial statements in accordance with government auditing standards issued by the Comptroller General of the United States (GAGAS). Under the direction of the Office of Audit, KPMG LLP (KPMG), an independent certified public accounting firm, performed the audit of FCC’s FY 2014 consolidated financial statements. The audit was conducted in accordance with GAGAS, OMB Bulletin 07-04, as amended and applicable sections of the U.S. Government Accountability Office (GAO)/President’s Council on Integrity & Efficiency (PCIE) Financial Audit Manual.

As a result of the 2014 financial statement audit, KPMG issued an Independent auditors report with an unmodified opinion on FCC’s financial statements, a report on internal controls over financial reporting, and a report on compliance and other matters dated November 14, 2014.
OFFICE OF AUDIT

KPMG reported that FCC’s financial statements were fairly presented in all material respects in conformity with U.S. generally accepted accounting principles.

The report on internal controls over financial reporting identified two significant deficiencies, of which one is considered a material weakness. The first significant deficiency is related to Universal Service Fund (USF) Budgetary Accounting, and was considered to be a material weakness. A material weakness is defined as a significant deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. The auditors identified errors in non-routine, manual journal entries related to the implementation of new programs, as well as errors caused by a lack of formal communication. The auditors reported that improvements were needed in internal controls and processes related to USF budgetary accounting.

The second significant deficiency is related to the FCC information technology controls. The auditors identified deficiencies in the FCC’s control environment, control activities, risk assessment process, and monitoring activities for securing FCC’s information technology infrastructure. While management has made improvements in its internal controls of information technology, similar findings have been reported by financial statement auditors since FY 2005.

The Commission is responsible for complying with laws, regulations, and provisions of contracts applicable to the FCC. To obtain reasonable assurance as to whether the Commission’s financial statements are free of material misstatement, KPMG performed tests of the Commission’s compliance with provisions of laws, regulations, and contracts that could have a direct and material effect on the determination of financial statement amounts. The auditor’s testing identified an instance of noncompliance with the Debt Collection Improvement Act of 1996 (DCIA) related to transferring of eligible debt outstanding to the U.S. Department of the Treasury (Treasury) on a timely basis.

Management concurred with the audit report recommendations.

As required by Chapter 4700 of Treasury’s Treasury Financial Manual (TFM), the FCC prepared special-purpose financial statements for the purpose of providing financial information to Treasury and the U.S. Government Accountability Office (GAO) to use in preparing and auditing the Financial Report of the U.S. Government. Under the oversight of the OIG, KPMG performed an audit of the special purpose financial statements in accordance with GAGAS and OMB Bulletin 07-04, as amended. KPMG issued an unmodified opinion on Commissions Special Purpose Financial Statements. The auditor’s report disclosed no significant deficiencies in the internal controls over the financial reporting process for the Special Purpose Statements and no instances of noncompliance.
OFFICE OF AUDIT

Fiscal Year 2014 Federal Information Security Management Act Evaluation

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

OIGs are required to annually evaluate agency information security programs and practices. The evaluations must include testing of a representative subset of systems, and based on that testing, an assessment of the agency’s compliance with FISMA and applicable requirements. OIG contracted with KPMG to perform the FY 2014 FISMA evaluation.

During this semiannual period, KPMG completed its evaluation and identified sixteen (16) findings and offered forty-nine (49) recommendations. Management generally concurred with the recommendations. Our FY 2014 FISMA Evaluation Report was issued on November 21, 2014.

Audit of FCC Civil Monetary Penalties

OA contracted with an independent public accounting firm, Lani Eko & Company (LEC) to perform an audit of FCC Civil Monetary Penalties (CMP) (Audit No. 12-AUD-12-26 issued March 30, 2015). The audit objectives included:

1) Identify and assess the adequacy and effectiveness of FCC controls over the management of Civil Monetary Penalties;
2) determine the adequacy of and compliance with FCC rules, directives, policies, and procedures; and
3) determine FCC compliance with OMB, Treasury, and other federal government guidance regarding civil monetary penalties.

The audit report includes three findings and offers 13 recommendations to strengthen internal controls related to the management of CMP actions. The audit found that forfeiture orders were not acted upon in all instances or were not always timely, records of civil monetary penalties were not maintained in accordance with agency directives and subsidiary accounting records were overstated due to expiration of the statute of limitations for some collections. Our recommendations will assist the agency in ensuring the civil monetary program is effective and consistently applied between the operating Bureaus. Management generally concurred with the results of the audit and noted that improvements in related processes were already in progress.
OFFICE OF AUDIT

Audit of Public Safety and Homeland Security Bureau

OIG contracted with an independent public accounting firm, CliftonLarsonAllen, to conduct an audit of the FCC’s Public Safety and Homeland Security Bureau (Audit Report No. 13-AUD-12-30, issued March 31, 2015). Audit objectives include:

1) Evaluating the economy, efficiency, and effectiveness of the Bureau in accomplishing its assigned mission;
2) evaluating adequacy and effectiveness of Bureau policies and procedures; and
3) evaluating Bureau’s compliance with applicable laws and regulations, as well as related FCC directives, policies, and procedures.

The audit disclosed that the Standard Operating Procedures, within the Operations and Emergency Management Division, were not current and therefore many not have been effectively producing intended results. Management concurred with the audit recommendations and has initiated steps to implement corrective actions.

Audit of VRS Providers Relay Service Data Request Projections

OIG contracted with LEC to conduct a performance audit of five Telecommunications Relay Service (TRS) providers offering Video Relay Service (VRS) (Audit Report No. 12-AUD-12-24, issued March 31, 2015).

The objectives of the audit were to determine:

1) The basis of the calculations used to arrive at the cost projections for submitted in the annual Relay Service Data Requests (RSDR);
2) whether the basis of the calculations resulted in the cost projections that were allowable and reasonable, and based on relevant historical and/or pertinent information; and
3) whether the basis of the calculations supporting the cost projections was documented and supported.

The scope of the audits included the TRS providers’ VRS cost projections reported to the Fund Administrator for program years 2008 through 2012. In general, the audits found that TRS providers’ VRS cost projections contained:

1) Unsupported cost projection methodologies;
2) unallowable expenses and improper cost classifications;
3) errors in the reporting of capital investments; and
4) lacked supporting documentation for cost data reported on the RSDR forms.

The TRS providers generally did not agree with the results of the audits, but LEC reviewed the responses provided and stands by its conclusions.
OFFICE OF AUDIT

In-Process Audits and Other Projects

FCC Electronic Mail Security Assessment

The objective of our assessment of the Federal Communications Commission’s (FCC) Electronic Mail Security program is to perform an assessment of the email security at FCC’s headquarters in Washington, D.C. OIG contracted with Knowledge Consulting Group (KCG) to perform the Electronic Mail Security assessment.

The scope of the assessment includes:

1) Assess the adequacy and the effectiveness of the controls over the electronic mail environment at FCC;
2) determine the adequacy of and compliance with the FCC’s email-related directives, policies, and procedures;
3) determine the Commission’s compliance with the National Institute of Standards and Technology (NIST) guidance regarding management and security for electronic mail; and
4) determine the Commission’s compliance with the National Archives and Records Administration (NARA) guidance regarding Electronic Records Management, as it pertains to electronic mail.

Our assessment is conducted under the authority of the Inspector General Act of 1978, as amended. The assessment is in process and the final assessment report will be issued during the next semiannual reporting period.

Audit of the Wireline Competition Bureau

The OIG contracted with an independent certified public accounting firm, Brown & Company, CPAs PLLC, to conduct an audit of the FCC’s Wireline Competition Bureau. Audit objectives include:

1) Evaluating the economy, efficiency, and effectiveness of the Bureau in accomplishing its assigned mission;
2) determining the adequacy and effectiveness of Bureau policies and procedures; and
3) evaluating the Bureau’s compliance with applicable laws and regulations, as well as related FCC directives, policies, and procedures.

The audit is in process and the final audit report will be issued during the next semiannual reporting period.
Universal Service Fund Oversight Division

OA’s Universal Service Fund Oversight Division (USFD) conducts audits, evaluations, and inspections of providers and beneficiaries designed to prevent and detect fraud, waste, and abuse. Those oversight activities and related initiatives help to promote economy, effectiveness, and efficiency of Universal Service Fund (USF). The USF provides support through four programs: High Cost; Schools and Libraries; Lifeline; and Rural Healthcare.

The High Cost Program, which is transitioning to the Connect America Fund, provides support to certain qualifying telecommunications carriers that serve high-cost areas, and offer rates and services to rural area consumers that are reasonably comparable to rates in urban areas. The Connect America Fund is designed to transition the program away from providing voice only telephone service to providing multi-purpose networks capable of offering broadband Internet access. The size of the Connect America Fund, including legacy High Cost Program support, is frozen at $4.5 billion.

The Schools and Libraries Program, also known as “E-Rate,” provides support to eligible schools and libraries in every U.S. state and territory for telecommunication services, Internet access, and internal connections. Over 36,000 eligible entities benefited in 2014, receiving approximately $2.27 billion in approved disbursements, bringing Internet services to millions of students and library patrons. Two major Schools and Libraries modernization orders were released during 2014. Those orders further program goals by increasing funding for Wi-Fi networks in elementary and secondary schools and libraries, and to purchase high speed broadband connectivity over the next five years.

The Lifeline Program, formerly known as Low Income, provides support to eligible telecommunications carriers that, in turn, offer discounts on telecommunications services to eligible consumers. Over 13 million low-income households throughout the nation benefited from 2014 program payments of approximately $1.6 billion.

The Rural Health Care Program provides support to eligible rural health care providers - including mobile health centers, hospital pharmacies, and medical training institutions - for telecommunications services and broadband access. For 2014, over 4,700 health care providers in the Rural Health Care Program received over $192 in support.
OFFICE OF AUDIT

Contributors. OA is also responsible for providing oversight of USF receipts collected from telecommunications providers of international and interstate telecommunications services, collectively referred to as contributors. Over 3,100 contributors submitted total contributions of approximately $8.82 billion in 2014.

The USFD is organized into three operational teams including:

1) High Cost (Connect America Fund);
2) Lifeline/Contributors; and

During the period ended March 31, 2015, OA continued to rebuild its knowledge-base of the High Cost program. The High Cost program is considered the most complex of the USF programs. Under the USF/ICC (Intercarrier Compensation) Transformation Order issued in November 2011, and subsequent clarifying orders, the High Cost program is transitioning to support multi-purpose networks capable of broadband and voice, while phasing out support for voice-only networks. During this transition period, the program will consist of separate support mechanisms for the legacy High Cost program and the new Connect America Fund.

In-Process Audits and Other Projects

High Cost Projects

We conducted a risk assessment of all aspects of the High Cost program to identify areas that warrant closer review. We identified several program risk areas to consider for current and future audits. During the period we issued requests for quotes for two audits that will be awarded to outside audit firms during the next semiannual reporting period.

The first of the two audits will assess the implementation of High Cost Transformation Order, which imposed a large number of changes to the USF High Cost program. The second audit will assess the implementation of Phase 1 of the Connect America Fund for Incremental Support of approximately $115 million to 72 price-cap carriers for providing broadband service to customers in areas lacking basic Internet access.

OA is also conducting a limited scope audit to examine allegations of improper acts by a High Cost program beneficiary. The objectives are to determine: 1) the appropriateness of the beneficiary’s allocation of corporate expenses among its regulated and non-regulated business segments, and 2) whether the beneficiary’s related party transactions violated rules, resulted in higher costs reimbursed by the USF, or were otherwise improper.
OFFICE OF AUDIT

Schools and Libraries/Rural Health Care Programs

During this reporting period, OA contracted with an independent public accounting firm, Moss Adams, LLP, for three performance audits: a school district, a library system and a rural health care hospital. The objectives of the audits are to determine if: 1) USF beneficiaries complied with FCC rule, 47 C.F.R. Part 54.500 to 54.680, et. seq., and all applicable orders issued under Section 225 of the Communications Act of 1934, as amended; and 2) the beneficiaries have adequate and effective controls to ensure USF funds are safeguarded and used for the purposes intended. We expect fieldwork for the three audits to start during the next reporting period.

Schools and Libraries Data Analytics Project

During the prior semiannual reporting period, OIG initiated a data analytics inspection of E-rate beneficiary discounts. The scope of our inspection includes Schools and Libraries program data for the period 2004 through 2014. Using data analytics tools, we developed methodologies to identify beneficiaries with the highest risk. In the next phase of the project, we plan to perform targeted audits or inspections to determine the validity of discounts at high risk beneficiaries. By selecting potential audit candidates from the resulting outlier group, OA plans to optimize its chances of discovering fraud, waste, abuse, or program noncompliance.

Lifeline Audit of Mextel Corporation

We completed audit fieldwork and issued a draft audit report on our audit of Mextel Corporation’s FCC Form 497 Lifeline Worksheet. The objectives of the audit are to determine the accuracy of the information reported on selected FCC Form 497, Lifeline and Link Up Worksheets, submitted by Mextel Corporation during the 12-month period ended June 2011. We also conducted limited tests of the Mextel Corporation’s 2011 and 2012 FCC Forms 499-A, Telecommunications Reporting Worksheet, to determine the accuracy of the revenues reported for USF contributions.

The Mextel Corporation has provided management comments on our draft audit report, and we are preparing the final audit report. We expect the final report to be completed by the next semiannual reporting period.
OFFICE OF AUDIT

Lifeline Audit of Assist Wireless, LLC

During the semiannual reporting period we issued an audit announcement letter to Assist Wireless, LLC. The objective of our audit is to determine 1) the accuracy of the information reported on the FCC Form 497 that was used for calculating Lifeline support for the low-income universal service support mechanism and 2) the Company’s compliance with 47 C.F.R. Sections 54.400 – 54.418. The audit will also include limited tests of the Company’s FCC Form 499-A, Telecommunication Reporting Worksheet. We expect to initiate audit fieldwork during the next semiannual reporting period.

Contributor Audit of Hardy Cellular Telephone Company

We completed audit fieldwork on the Contributor Compliance audit of Hardy Cellular Telephone Company. The objective of the audit is to determine the accuracy of revenues and other information reported in Hardy Telephone Company’s FCC Form 499-A, Telecommunication Reporting Worksheet, which is used for calculating contributions to the universal service support mechanisms. The audit also included limited testing of the Company’s FCC Form 497, Lifeline Worksheet, used for reporting Lifeline reimbursements. We expect to issue the final audit report during the next semiannual reporting period.
OFFICE OF INVESTIGATION

OIG Office of Investigation (OI) covers a wide range of topics touching on myriad aspects of the FCC’s mission and programs. Most significantly, our investigations often address allegations of criminal misconduct or civil false claims. We deal with complex cybercrime investigations, large criminal conspiracies, and matters involving complex financial transactions throughout the United States and its territories. These difficult and wide-ranging cases often require substantial investigative expertise and resources including personnel on the ground across several states, or high-grade forensic tools and the expertise to use them. In these cases, we have always received, and are grateful for, the assistance of other agencies, especially the Offices of Inspector General of other federal agencies and the Federal Bureau of Investigation (FBI).

OI receives and investigates complaints regarding the manner in which the FCC executes its programs, how it handles its operations administratively, and how the FCC conducts its oversight responsibilities. Allegations come from a variety of sources including FCC managers and employees, contractors, program stakeholders, and whistleblowers. Allegations can also be referred by OIG auditors.

In addition to investigations regarding Commission programs, OI investigates internal affairs and examines allegations of improper employee and contractor activity implicating federal statutes or regulations establishing standards of conduct and procedure.

OI, like most government offices, has an ever-increasing volume of work and limited resources. Thus, matters having the potential to significantly impact federal funds, important FCC missions or programs, or the basic integrity and workings of the agency, receive the highest priority for investigation and assignment of resources.

Activity During This Period

At the outset of this reporting period, 79 cases were pending. Over the last six months, 13 cases have been closed and 21 opened. As a consequence, a total of 87 cases are pending. These numbers do not include preliminary reviews of allegations, from the Hotline or other sources, or matters involving minimal analysis of the allegations or evidence.

Statistics

- Cases pending as of April 1, 2014: 79
- New Cases: 21
- Cases Closed: 13
- Cases pending as of September 30, 2014: 87
OFFICE OF INVESTIGATION

Significant Activities

Several of the Office’s significant activities are described below. However, we discuss investigations only when and if information may be made public without negative impact on law enforcement activities, including criminal prosecutions, and without divulging investigative techniques. Thus, many matters could not be considered for inclusion in this summary. In this reporting period, in particular, we have been working on numerous investigations upon which we cannot report, including matters before the Grand Jury and sealed qui tams.

Investigations into Fraud in the Universal Service Program

The bulk of the work of OI involves investigating and supporting civil and criminal investigations/prosecutions of fraud in the FCC’s universal service program. The AIGI and OI staff work routinely with other federal, state and local agencies in these matters. These coordinated investigatory and prosecutorial efforts, especially those involving the Department of Justice (DOJ), the Department of Education and its OIG, and various U.S. Attorneys, have resulted in many successes, including civil settlements and criminal convictions. Most of our on-going universal service investigations are not known to the public and even some closed investigations cannot be disclosed because of sensitivities that could impact related ongoing matters. Specifically, OI is handling multiple ongoing large-scale investigations involving the E-rate Program that we hope to share in the near future. Following successful prosecutions from OI investigations, FCC’s Enforcement Bureau (EB) initiated several suspension proceedings.

Low Income Program

OI continues to investigate allegations of both criminal and civil fraud in the Universal Service Fund’s Lifeline Program (also known as the Low Income program). The program aims to provide affordable, nationwide telephone service to all Americans. The Lifeline Program, which is administered by the Universal Service Administrative Company (USAC) on behalf of the FCC, reimburses participating telephone companies for providing discounts on monthly telephone service to qualifying customers.

The ATMS (Associated Telecommunications Management Services, LLC) criminal prosecution, discussed in the last Semiannual Report to Congress, is currently scheduled for trial in the U.S. District Court for the Central District of Florida (Tampa) in August, 2015.
OFFICE OF INVESTIGATION

Investigation into Fraud in the Federal Communications Commission Telecommunications Relay Service (TRS)

On December 17, 2014, Bryce Chapman, after having pled guilty to one count of conspiracy to commit mail and wire fraud pursuant to 18 U.S.C. Section 1349, for his role in committing VRS fraud, was sentenced to 36 months’ probation and was assessed a forfeiture in the amount of $18,987,189.00.

On January 13, 2015, Samuel Hawk, after having pled guilty to one count of conspiracy to commit mail and wire fraud pursuant to 18 U.S.C. Section 1349, was sentenced to 55 months imprisonment and was assessed a forfeiture in the amount of $18,987,189.00.

Samuel Hawk was the last remaining defendant in the VRS investigation that this Office has pursued for years. This investigation has resulted in more convictions, money recovered and costs avoided due to programmatic improvements that resulted from our work than any prior investigation this Office has conducted.

False Claims Act and the Universal Service Fund and TRS Fund

A recent concern facing OIG is the issue of whether reimbursement claims from the Universal Service Fund (USF) and TRS Fund are actionable civilly pursuant to the federal False Claims Act (FCA). Upon a showing of the requisite scienter/intent to defraud, penalties and treble damages are available to the government under the FCA. Thus, the combination of providing a method for returning money fraudulently obtained, as well as the deterrent factor provided by treble damages, makes the FCA, as noted in the Senate Report accompanying the legislation, the federal government’s “primary litigate tool for combatting fraud.”

Recently, the continued use of the FCA for purposes of USF and Telecommunications Relay Services (TRS) -related enforcement actions has been called into question. In a challenge to an E-Rate-related FCA qui tam, the 5th Circuit in U.S. ex rel. Shupe v. Cisco Sys., Inc.,759 F.3d 379 (5th Cir. 2014) held that E-rate funds (effectively all USF funds) are not funds “provided by” the federal government pursuant to the FCA, and, inter alia, consequently not subject to the FCA. This decision followed a similar ruling concerning the TRS Fund in the Western District of Pennsylvania, wherein the court held that TRS funds were, following a similar rationale, also not subject to the FCA. U.S. ex rel. Lyttle v. AT&T Corp., No. 2:10-1376, 2012 WL 6738242 (W.D. Pa. Nov. 15, 2012). The rulings in these cases have emboldened virtually every litigant, as well as subjects in myriad OIG investigations, to raise the specter of the federal funds issue, not only in civil cases but also in criminal matters concerning allegations of theft from the government (18 U.S.C. §§ 287, 641, 666) and in cases brought pursuant to the Debt Collection Improvements Act. The issue is currently being litigated in another E-Rate-related qui tam in the U.S. District Court for the Eastern District of Wisconsin. See U.S. ex rel. Heath v. Wisconsin Bell, Inc., Case No 2:08-cv-000876-LA (Lead Case No. 2:08-cv-00724-LA).
OFFICE OF INVESTIGATION

Although the Department of Justice aggressively continues to assert its position that \textit{Shupe} and \textit{Lyttle} were wrongly decided, if the holding in \textit{Shupe} is adopted in other jurisdictions (currently, OIG cannot pursue USF-related civil fraud cases in Texas, Louisiana and Mississippi) the government will be denied the ability effectively to protect billions of dollars in USF funding against fraud, annually.

As evidenced by the Commission’s support of DOJ’s filings in \textit{Shupe, Lyttle and Heath}, the Commission supports the position that USF and TRS funds come within the ambit of the FCA. Further, it is our understanding that the Commission is considering ways to address the fund processing issues identified by the 5\textsuperscript{th} Circuit as roadblocks to a finding that USF reimbursements are subject to the FCA. To date, we are not aware of any significant progress made in this regard. Recognizing the possibility that other circuits could follow \textit{Shupe}, the longer the Commission does not address the matter, the greater the risk of fraudulent losses to the USF and TRS Funds.

\textbf{Internal Affairs}

The IG is authorized by the IG Act, as amended, to investigate allegations of fraud, waste and abuse occurring within the FCC programs and operations. Matters of possible wrongdoing are referred to OIG in the form of allegations or complaints from a variety of sources, including FCC employees, contractors, other government agencies and the general public.

During this reporting period, OI Internal Affairs Division opened eight cases and closed eight cases.

\textbf{Freedom of Information Act Requests}

The Freedom of Information Act (FOIA) provides the public with right to request information from federal agencies. On February 17, 2015, the FCC became the 12th federal agency to transition to FOIA Online, an electronic FOIA tracking system allowing the public to:

1) File requests under FOIA;
2) track the status of requests;
3) search and view requests, appeals, and responsive records; and
4) access FOIA reports. Registered users also can file appeals.
OFFICE OF INVESTIGATION

Anyone interested in obtaining FCC records pursuant to the FOIA, should access FOIA Online at https://foiaonline.regulations.gov/.

OIG experienced a striking increase in the amount of information requested in each FOIA request in the current reporting period. Several OIG staff availed themselves of FOIA training opportunities throughout the reporting period including training for FOIA Online, quarterly FCC FOIA Updates training, and substantive FOIA training offered by the Department of Justice.

Office of Inspector General Hotline

OIG maintains a Hotline to facilitate the reporting of allegations of fraud, waste, abuse, mismanagement or misconduct in FCC programs or operations. Commission employees and concerned citizens may report such allegations to the Hotline at (202) 418-0473 or toll free at (888) 863-2244 or by e-mail at hotline@fcc.gov. OIG’s Hotline is available 24 hours a day, seven days a week via a recorded messaging system.

Upon receipt of a specific claim of fraud, waste, abuse, or mismanagement, OIG may take any one of the following actions:

1) Open an OIG investigation or audit;
2) refer the matter to FCC management for appropriate review and action; or
3) refer the allegation to another Federal agency.

For example, complaints about fraudulent sweepstakes are referred to the Federal Trade Commission (FTC), the nation’s consumer protection agency.

During this reporting period, the OIG Hotline received a number of calls complaining about phishing calls purportedly made by employees of the Internal Revenue Service and the FBI. Those calls were referred to the OIGs of the respective entities.

Consumers who have general questions, consumer complaints, or issues not related to fraud, waste and abuse, should contact the FCC’s Consumer & Governmental Affairs Bureau (CGB) at www.fcc.gov/cgb, or contact the FCC’s Consumer Center by calling 1-888-CALL-FCC (1-888-225-5322) voice or 1-888-TELL-FCC (1-888-835-5322). CGB develops and implements the Commission’s consumer policies, including disability access. The FCC Consumer Center processes public inquiries, informal complaints, and questions regarding cable, radio, satellite, telephone, television and wireless services.
OFFICE OF INVESTIGATION

During the current reporting period, OIG received 4,919 Hotline contacts.

Of these:

1) 51 were referred to OI for possible case openings;
2) 279 were referred to FCC Consumer Center;
3) 569 were referred to other agencies including the FTC; and
4) 4,020 were determined to lack merit for referral or further investigation.
The following are the Office of Inspector General response to the 12 specific reporting requirements set forth in Section 5(a) of the Inspector General Act of 1978, as amended.

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

*Please refer to the sections of this report titled “Operations, Financial, and Information Technology Division” and “Office of Investigation.”*

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

*Please refer to the sections of this report titled “Operations, Financial, and Information Technology Division” and “Office of Investigation.”*

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

*No significant recommendations remain outstanding.*

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

*Please refer to the section of this report titled “Office of Investigation.”*

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 “Operations, Financial, and Information Technology Division” section.*

7. A summary of each particularly significant report.

*Each significant audit and investigative report issued during the reporting period is summarized within the audits and investigations sections.*
REPORTING REQUIREMENTS

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

See Table 1 to this report.

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

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

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

Two audits of E-rate funding recipients (see the definition in the “Universal Service Fund Oversight Division” section of this report) that were issued in prior reporting periods contain recommended funding recoveries that have not been resolved. One of these audits is in the audit resolution process and one is in the appeals process. The appeals process available to E-rate funding recipients facing a funding recovery is lengthy and time-consuming. We have no projection for when the process will be complete for these recoveries and will continue to track the recommendations until they are resolved.

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.
<table>
<thead>
<tr>
<th>Status of Inspector General Reports with Questioned Costs</th>
<th>Number of Reports</th>
<th>Questioned/Unsupported Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. No management decision has been made by the commencement of the reporting period.</td>
<td>3</td>
<td>$2,478,134</td>
</tr>
<tr>
<td>B. Issued during the reporting period.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C. Management decision made during the reporting period.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value of disallowed costs.</td>
<td>1</td>
<td>$31,802</td>
</tr>
<tr>
<td>Value of costs not disallowed.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D. Management decision not made by the end of the reporting period.</td>
<td>2</td>
<td>$2,446,332</td>
</tr>
<tr>
<td>E. Management decision made within six months of issuance.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX

Results of Peer Reviews

Peer reviews are conducted of an OIG’s audit organization’s system of quality control in accordance with the CIGIE Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General, based on requirements in the Government Auditing Standards on a three-year cycle.

During this semiannual reporting period, no peer reviews were conducted by another OIG organization on OIG, and OIG did not conduct a peer review on other OIGs. Listed below is information concerning peer review activities during prior reporting periods.

   Peer Review of FCC OIG Audit

OIG was subject to a peer review in a prior reporting period. The Government Printing Office (GPO) Office of Inspector General conducted the review and issued its system report on September 24, 2013. In the GPO OIG’s opinion, the system of quality control for the OIG audit organization in effect for the year-ended March 31, 2013, had been suitably designed and complied with to provide FCC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. OIG received a peer review rating of pass.

   Peer Review of Federal Housing Finance Agency (FHFA) OIG

We conducted an external peer review of the Federal Housing Finance Agency (FHFA) OIG that we reported in a prior reporting period. FHFA OIG received a “pass” rating. We did not identify any material weaknesses and there were no restrictions on the scope of our review. We did identify one finding and recommendation which will further enhance its quality control system. Although FHFA OIG’s quality control system was well designed, we concluded the monitoring could be enhanced with full implementation of its quality control plan. We recommended FHFA OIG enhance its quality control monitoring activities by ensuring full implementation of its quality control plan related to the review of all GAGAS requirements in at least one selected audit annually. We reported the results of our review on March 20, 2014.