

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



## **Semiannual Report to Congress October 1 2016-March 31, 2017**

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**THE FEDERAL COMMUNICATIONS COMMISSION**



**Left to Right:**

**Commissioner Mignon Clyburn, Chairman Ajit Pai,  
Commissioner Michael O’Rielly**

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## COVER MEMORANDUM

**DATE:** May 4, 2017

**TO:** Chairman Ajit Pai, Federal Communications Commission  
Commissioner Mignon Clyburn  
Commissioner Michael O’Rielly

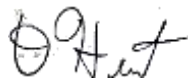
**FROM:** Inspector General

**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, 2017. In accordance with Section 5(b) of that Act, it would be appreciated if this report, along with any associated report that you may prepare, be forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

This report describes both audits and investigations that have been completed during the preceding six months, as well as those in process. Where appropriate, reports of completed audits and investigations 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. We welcome any comments, suggestions or questions you may have.



**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 Federal Communications Commission is composed of five (5) members who are appointed by the President and subject to confirmation by the Senate. Normally, one Commissioner is appointed or reappointed each year, for a term of five (5) years. One of the members of the Commission is designated by the President to serve as Chairman, or chief executive officer, of the Commission. Ajit Pai currently serves as the Chairman. Mignon Clyburn and Michael O'Rielly currently serve as Commissioners. Most of the FCC's employees are located in Washington, D.C. at 445 12th St., S.W. 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 to assisting the Commission in its continuing efforts to improve operational and program effectiveness and efficiency. Management matters are coordinated with the Chairman's office. 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. The principal assistants to the Inspector General are Assistant Inspectors General (AIG) and they are:

**Stephen Ebner, AIG for Management**

**Jay C. Keithley, AIG for Investigations and Counsel**

**Robert McGriff, AIG for Audit**

In this semiannual report, we discuss both the major accomplishments and activities of the OIG from October 1, 2016 through March 31, 2017, as well as its goals and future plans.

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## OFFICE OF MANAGEMENT

### **Office Staffing**

Currently our office consists of 47 highly-educated, experienced professional and administrative staff including auditors, investigators, attorneys, paralegals, an IT specialist, a contract specialist, a computer forensic investigator, and a data-mining specialist.

Training and education are important mission objectives to ensure we continue increasing the expertise of all staff and to satisfy the training requirements mandated by various professional organizations. To that end, staff have attended and completed courses such as CIA-Certified Internal Auditor, American Institute of Certified Public Accounts, Internal Controls over Financial Reporting, Conducting On-Line Fraud, and Computer Forensics.

### **Internships**

Occasionally, we provide internships to qualified applicants. Our intent is to provide interns with the opportunity to take on challenging projects, while greatly assisting our staff in completing assignments. We strive to provide interns with a good understanding of how a Federal law enforcement agency operates. Several of our interns have gone on to take positions in the Department of Justice (DOJ), including the Federal Bureau of Investigations (FBI).

### **Legislative and Policy Matters**

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. We perform this activity to evaluate legislative potential for encouraging economy and efficiency, while helping to reduce fraud, waste, abuse, and mismanagement.

Further, during the reporting period, we shared recommendations to prevent and detect fraud in the E-rate program with Commission and Universal Service Administrative Company (USAC) staff. *See infra* pp. 12-15.

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In addition to our statutorily mandated semiannual report to Congress, we have been providing members of Congress additional semiannual reports regarding open and closed investigations, and audit results, including monetary benefits and unimplemented audit recommendations.

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## 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 fraud in the Commission's Universal Service and Telecommunications Relay programs. We deal with complex 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, DOJ and the 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 the public at large. Whistleblower requests for anonymity are honored, except when identification is needed for law enforcement purposes. 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. While we have made recent additions to our staff, 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, eighty-five cases were pending. Over the last six months, eight cases have been closed and seven opened. As a consequence, a total of eighty-four cases



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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 October 1, 2016 = 85

New Cases = 7

Cases Closed = 8

Cases pending as of March 31, 2017 = 84

### **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 Federal Universal Service Program**

The Universal Service Fund (USF), administered by the USAC on behalf of the FCC, provides support through four programs: High Cost, Schools and Libraries, Lifeline, and Rural Healthcare.

The *High Cost Program*, which is being reformed and is transitioning to the Connect America Fund (CAF), provides support to certain qualifying telecommunications carriers serving high-cost areas, primarily rural. Telecommunications carriers receiving High Cost support must offer services to rural area consumers at rates reasonably comparable to the rates for services offered in urban areas. The CAF is designed to transition the program away from providing voice-only telephone service to providing multi-purpose networks capable of offering broadband Internet access. Funding for the CAF, including legacy High Cost Program support, is statutorily frozen at \$4.5 billion annually.

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The *Schools and Libraries Program*, also known as “E-Rate,” provides support to eligible schools and libraries in every U.S. state and territory to help fund telecommunication services, Internet access, and internal connections. Over 38,000 eligible entities benefited from the program in 2016, bringing Internet services to millions of students and library patrons. E-Rate funding totaled \$2.39 million in program year 2016. Two major E-Rate modernization orders were released in 2014. Those orders further E-Rate program goals by increasing funding for Wi-Fi networks in elementary and secondary schools and libraries, and expanding high speed broadband connectivity.

The *Rural Health Care Program* (RHC) provides funding to eligible health care providers to advance the quality of healthcare available to patients in rural communities. RHC provides up to \$400 million annually through two programs, the Healthcare Connect Fund and the Telecommunications Program. The Healthcare Connect Fund provides support for high-capacity broadband connectivity to eligible health care providers and encourages the formation of state and regional broadband health care provider networks. The Telecommunications Program ensures that eligible rural health care providers pay no more than their urban counterparts for telecommunications services. Funding for the Rural Health Care Program is capped at \$400 million annually.

The *Lifeline Program* 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 2016 program year payments of approximately \$1.5 billion.

*Contributors.* OIG is also responsible for providing oversight of USF receipts collected from telecommunications providers offering international and interstate telecommunications services. Those telecommunications providers are collectively referred to as contributors. Over 3,151 contributors submitted total contributions of approximately \$8.80 billion in 2016.

The bulk of OI’s work involves investigating and supporting civil and criminal investigations/prosecutions of fraud in the FCC’s federal universal service programs. The AIGI and Investigations staff work routinely with other state, local and federal agencies on these matters. These coordinated investigatory and prosecutorial efforts, especially those involving

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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, the OI is engaged in multiple, ongoing, large-scale investigations involving the E-rate and Lifeline Programs as well as qui tams under seal, seeking damages pursuant to the Federal False Claims Act (FCA). We hope to share details about these matters in the near future. Highlighted below are notable matters that have had public developments during the reporting period:

### **Lifeline Investigations**

#### Total Call Mobile

On December 22, 2016, the U.S. District Court for the Southern Division of New York approved a settlement to resolve the Government’s claims against Total Call Mobile, LLC (“Total Call”) for defrauding the Lifeline program by knowingly seeking reimbursement for consumers who did not meet Lifeline eligibility requirements. Total Call and co-defendants Locus Telecommunications, LLC, and corporate parent, KDDI America, Inc., were required to pay approximately \$22.5 million to the United States, and to forego payment of approximately \$7.5 million in Lifeline reimbursements claimed by Total Call but withheld by the Government.

The Government joined a private whistleblower lawsuit filed pursuant to the FCA, and the settlement concluded an extensive investigation conducted by the FCC-OIG and the U.S. Attorney’s Office for the Southern District of New York (USAO SDNY). The whistleblower alleged Total Call knowingly submitted false claims for federal payments by seeking reimbursement for consumers who did not meet Lifeline eligibility requirements. As part of a global settlement, the company’s payment also resolved an administrative investigation conducted by the FCC.

Total Call, like many other Lifeline ETCs, contracted with marketing companies throughout the country to hire “field agents” to engage in face-to-face marketing of mobile services. The field

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agents entered a consumer’s demographic information and captured images of the consumer’s proof of identification and eligibility (e.g., Medicaid card, food stamp card) into Total Call’s electronic recordkeeping systems.

Total Call’s field agents employed a range of fraudulent enrollment practices including repeatedly using the same eligibility proof to enroll multiple consumers, tampering with proof of identification and eligibility, and submitting false consumer addresses and social security numbers. Moreover, Total Call approved enrollment applications submitted by these field agents with little or no scrutiny, even though a cursory review would have shown that many applications were faulty and should have been denied.

During the investigation, OI utilized database evidence – including logs of how each customer application was processed – to show Total Call sought reimbursement for thousands of customers who did not meet eligibility requirements. Total Call staff frequently did not review customer applications for eligibility until weeks or months after the customer’s phone had been activated, by which time Total Call had already included the subscriber in its monthly federal remittance requests. When review did occur, Total Call staff often spent only 10 seconds or less reviewing the applications and rarely denied such applications.

Even after Total Call’s managers were notified that the company’s field agents were engaging in blatantly fraudulent enrollment practices, Total Call continued to approve and submit grossly inflated reimbursement requests for consumers enrolled by these agents. OI’s analysis also showed that Total Call knew at least 373 field agents had engaged in fraud while enrolling customers. Collectively, these 373 agents enrolled over 200,000 customers after Total Call knew of the agents’ fraudulent conduct – enrollments that would not have occurred if Total Call had timely suspended or terminated these agents. For those 200,000+ customers, Total Call received over \$13 million in federal reimbursements.

OI’s detailed analysis of the company’s Lifeline customer database, which contained millions of data points, provided clear, irrefutable evidence of TCM’s misconduct, and the USAO SDNY identified FCC OIG’s data intensive work as critical to the successful resolution of the investigation.

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In addition to the \$30 million settlement, Total Call ceased providing Lifeline services on December 31, 2016, and agreed not to participate in the Lifeline Program in the future.

### **Lifeline Team Recommendations**

In the most recent previous Semiannual Report (SAR), we reported that OI's Lifeline Investigations team developed and shared with USAC a series of algorithms that could be utilized to identify fraud in the program. Concomitantly, we provided the Commission and USAC staff with a series of recommendations based on OIG's experience in conducting investigations of Lifeline providers. (See FCC OIG SAR April 1, 2016 –September 30, 2016, p. 15 for detailed description). Subsequently, we had several meetings with the Commission and USAC to discuss the implementation of the Lifeline National Eligibility Verifier (National Verifier), which will, among other functions, standardize and centralize the applicant eligibility verification process across all states to determine eligibility for both initial Lifeline enrollments and annual customer recertification. The Commission will be conducting a multi-phase roll out of the National Verifier program. Although Commission staff indicated an interest in adopting our recommendations in conjunction with the National Verifier, to date, we have not been provided with a timetable indicating when our recommendations will be implemented and are unaware of any significant action taken by either the Commission or USAC to utilize the algorithms. Nevertheless, late in this reporting period, we learned the Commission has taken steps toward improving confirmation of Lifeline eligibility by entering into discussions with the Department of Housing and Urban Development (HUD) for the development of a Computer Matching Agreement pursuant to which HUD would provide the National Verifier with information regarding those receiving housing assistance.

### **E-Rate Investigations Ongoing**

OI's E-Rate Investigations team continues its work on ongoing investigations of E-Rate service providers, recipients and consultants including a significant case investigating a large number of religious schools in New York State. OI has continued to open new investigations, and has been assisting the Justice Department and United States Attorney Offices around the country to pursue civil and criminal fraud cases in the E-Rate program.

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## **E-Rate Program Recommendations**

During this reporting period, OI's E-Rate team developed two recommendations based on recent investigations to increase compliance with program rules and strengthen OI's ability to detect fraud, waste and abuse.

The first recommendation involved USAC's retention of information in its E-Rate Productivity Center (EPC) portal, which is under development at USAC. In EPC, certain information previously available in USAC's legacy system was no longer maintained. As a result, OI's E-Rate team faced difficulties initiating and pursuing certain investigations. OI recommended USAC continue its prior information retention process and in January, 2017, OI and USAC staff met to discuss OI's recommendation. As a result, USAC is currently working with EPC to maintain the necessary information and provide additional information not previously maintained.

OI's second recommendation is focused on the E-Rate Program's requirement for a fair and open competitive bidding process. These competitive bidding requirements lie at the heart of the Program and are a key component in ensuring USAC pays no more than it should for supported services and products. Since the Program's inception in 1998, the ability to deter and detect fraud, waste, and abuse during the competitive bidding process has been severely limited by the lack of upfront collection of competitive bids. OI is frequently asked by its law enforcement partners, particularly criminal prosecutors, why the Program does not collect such documentation, as it is particularly helpful in ensuring compliance with Program rules.

To remedy this problem, OI recommended USAC create an online competitive bid repository within EPC where service providers are required to upload all bids instead of directly submitting bids to applicants. Submitted bids would then be released to applicants upon the closing of the 28-day bidding window.

OI believes this requirement would be highly valuable in deterring and detecting fraud, waste, and abuse of Program funds for three main reasons. First, requiring service providers to initially submit bids to USAC instead of to applicants prevents an applicant from informing a favored service provider about the pricing and terms contained within a competitor's bid prior to the

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close of the 28-day bidding window. One of the strengths of the competitive bidding process is that all service providers operate on a level playing field. If a favored service provider is given information pertinent to a competing service provider's bid, the favored service provider can submit a bid that merely beats the competitor's bid according to the applicant's selection criteria, but in reality may fail to provide the applicant with the favored provider's best bid. This will result in the Fund paying more for services and equipment than it would have if a true competitive bidding process had occurred. Second, submission of service provider bids prior to bid selection prevents a service provider or applicant from submitting an altered bid or contract to USAC during its Program Integrity Assurance (PIA) review to create the appearance of compliance with Program rules. Finally, the submission of bids to USAC by service providers allows audit teams to detect irregularities and identify violations of Program rules. Even if such audits are not routinely conducted, the fact that they could be subjected to such audit creates a deterrent effect on service providers violating Program rules

Two recent OI investigations highlight the benefit an online competitive bid repository would provide. The first involved an applicant selecting a service provider that had never been involved with the E-Rate Program. OI initiated an investigation into this selection following a complaint submitted by a losing service provider. Documentation provided by the losing service provider revealed the winning bid was nearly identical to the bid submitted by the losing service provider. Although USAC's PIA review team had not requested competitive bid documentation in the normal course of application review, if such documentation were to have been requested, the applicant could simply have neglected to provide any information indicating the existence of the losing service provider's bid. A competitive bid repository may have prevented the applicant from submitting a copied bid and it would have allowed USAC or OI to identify this fraud independent of any complaints submitted by aggrieved service providers.

A second example involves OI's investigation into a service provider's apparent offer to pay an applicant's non-discount share, in violation of Program rules. After identifying a bid containing an offer to pay an applicant's non-discount share, additional bids submitted by the service provider were collected. None of the bids provided by the service provider contained any further offers to pay the applicant's non-discount share. It is certainly plausible, if not probable, that the bids collected after this issue was identified were altered to create the appearance of compliance

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with E-Rate Program rules. A competitive bid repository would prevent applicants and service providers from altering bids after receiving notice of an apparent issue.

While bid collection may impose minimal administrative costs on E-Rate Program participants, such costs are greatly outweighed by the benefits collection of these documents will provide in deterring and detecting fraud, waste and abuse in the Program leading to overall lower costs for service and equipment. Indeed, as service providers are already required to submit bids and funding recipients are already required to compile and maintain bid submissions, providing for the submission of such data to USAC initially should not result in more than de minimis additional costs or additional burdens to either service providers or funding applicants.

OI sent this recommendation to the Wireline Competition Bureau at the end of January, 2017 and has not yet received a response.

### **Rural Health Care**

As more and more health care providers have utilized the Program, the funding cap was reached in funding year 2016. OI is now investigating several cases of potential fraud in this Program.

### **False Claims Act and Qui Tam Work**

In January 2013, Relators, Rick and Laurie Farmer, filed a qui tam case alleging that Telmate and certain associated entities (collectively, Telmate) knowingly failed to make accurate contributions to the USF.<sup>1</sup> Telmate is an inmate calling services provider. OI investigated the allegations, and on November 3, 2016, DOJ and the FCC reached a settlement with Telmate, LLC and its owners, Richard Torgersrud and Kevin O’Neil. Under the terms of the settlement, Telmate agreed to pay to the United States \$422,000.00.

#### False Claims Act

In previous SARs, we reported on several court decisions that have considered the continued use of the FCA in matters involving the USF and Telecommunications Relay Service (TRS)

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<sup>1</sup> *U.S. ex rel. Rick Farmer and Laurie Farmer v. Telmate, LLC et al*, Case No. 3:13-cv-0341 (D. Or 2013). The associated entities were Pinnacle Public Services, LLC, Intelmate, LLC, and Pinnacle Inmate Management Services, LLC.

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programs. *See* SARs for Oct. 1 - March 31, 2015; April 1- September 31, 2015 and Oct 1- March 31, 2016.

Most problematic has been the case of *Ex rel. Shupe v. Cisco Sys., Inc.*, 759 F.3d 379 (5th Cir. 2014) (*Shupe*) wherein the court held that E-rate funds (effectively all USF funds) are not funds provided by” the federal government pursuant to the FCA, and *inter alia*, not subject to the FCA. DOJ believes *Shupe* was wrongly decided and therefore has continued to support the Commission’s efforts to bring FCA cases. However, in the event additional courts agree with the 5<sup>th</sup> Circuit, OIG and the Commission would be denied one of the government’s most effective deterrents in combating waste, fraud and abuse of Commission programs. Moreover, even in the absence of future contrary court decisions, until the veil of *Shupe* is lifted, litigants will continue to raise the specter of the case, as they have been doing in virtually every matter brought by OIG/DOJ involving USF.

Determining how best to overcome the obstacles raised by the courts to assure continued availability of the FCA is a matter that has been under consideration by the Commission since the *Shupe* ruling. However, although it is our understanding the Commission is taking steps to move USF program funds to the Treasury, in an effort to address some of the court’s concerns, to date, this has not yet been effectuated. While such a move will likely address some of the infirmities raised by the *Shupe* court, it is not a perfect solution, as any effect of this change would likely only have prospective applicability. If the *Shupe* rationale is adopted in more jurisdictions, we predict, based on our ongoing investigations, that the government may lose the ability to recover hundreds of millions of dollars of USF fraud because it was perpetrated prior to any movement of funds to the Treasury. Thus, we believe the most effective solution would be a statutory amendment, presumably to the Communications Act, to clarify that USF and TRS funds are, and always have been, subject to the FCA.

#### Internal Affairs

The IG is authorized by the IG Act, as amended, to investigate allegations of fraud, waste and abuse occurring in FCC 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 four cases and closed three cases.

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Employee Violations of Ethical and Administrative Rules (misuse of Commission facilities to view pornography)

In July 2016, OIG received allegations that an FCC employee was using his FCC-issued computer to view pornography. During the preliminary forensic investigation, images appearing to be child pornography were identified. In accordance with the requirements of the IG Act, OIG contacted the United States Attorney's Office for the Northern District of Virginia (USAO) and worked with the FBI to support the investigation. While supporting the FBI investigation, OI completed the administrative investigation. The administrative investigation identified a substantial amount of evidence that the employee used an FCC-issued computer to search for, access, and view pornographic material in violation of the Commission's directive and policies governing cyber security. The matter was referred to Commission management, which issued a Notice of Intent to Remove.

Employee Violations of Multiple Ethical and Administrative Rules

In a previous SAR (October 2015 – March 2016) Internal Affairs reported closure of a case of Employee Violations of Multiple Ethical and Administrative Rules (misuse of Commission facilities to conduct personal business and view pornography and time and attendance abuse) involving three FCC employees. Since that time, the Commission has taken action and terminated two of the employees. Management is currently evaluating the third employee's case for action. Additionally, a fourth employee who was involved to a lesser degree, was suspended for two weeks without pay.

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](mailto:hotline@fcc.gov). OIG's Hotline is available 24 hours a day, seven days a week via a recorded messaging system.

Many of the allegations received by the Hotline raise issues that do not fall within the jurisdiction of the FCC or the OIG, and many do not rise to the level of devoting investigative resources to the claim. Upon receipt of a specific claim of fraud, waste, abuse, or mismanagement, OIG may, where appropriate, take any one of the following actions:

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1. Open an OIG investigation or audit.
  2. Refer the matter to an FCC Bureau or Office for appropriate review and action.
  3. Refer the allegation to another Federal agency. For example, complaints about fraudulent sweepstakes are referred to Federal Trade Commission (FTC).

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](http://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. The goal of this process is to reach a mutually satisfactory resolution of the complaint between the service provider and its customer.

During the current reporting period, OIG received:

1. 2,245 Hotline contacts. Of these, 52 were referred to OIG for possible case openings.
2. 65 were referred to FCC Consumer Center or other FCC Bureaus.
3. 190 were referred to other agencies including the FTC.

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## OFFICE OF AUDIT

Under the authority of the IG Act, as amended, the Office of Audit (OA) conducts or contracts for the performance of independent and objective audits, inspections, evaluations and related projects designed to promote economy, effectiveness and efficiency in FCC programs and operations and to prevent and detect fraud, waste and abuse. Audits, inspections, evaluations and other projects are conducted in accordance with relevant professional standards, including Generally Accepted Government Auditing Standards, also known as the Yellow Book, and Council of Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspections and Evaluations. As necessary, we contract for audit services with Independent Public Accountants (IPA) firms. We provide oversight and monitoring for all contracted services to ensure compliance with the contract, as well as relevant professional standards.

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

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

### **Operations, Financial, and Information Technology Division**

OFID conducts audits, inspections, and evaluations, designed to promote economy and efficiency in FCC operations and to prevent and detect fraud, waste and abuse. Mandatory projects include the Annual Financial Statement audit, the Federal Information Security Management Act (FISMA) evaluation, and the Improper Payments Elimination and Recovery Act compliance audit.

During the reporting period, OFID completed two mandatory audits and three discretionary inspections. Three projects are in process and will be summarized in a future reporting period.

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## **Completed OFID Audits, Inspections and Evaluations**

### Audit of the FCC Fiscal Year 2016 Consolidated Financial Statements (Report No. 16-AUD-06-04)

Federal law requires the FCC to prepare annual consolidated financial statements and OIG to audit the statements. Under the oversight of OA, Kearney & Company (Kearney), an IPA, performed the audit of the FCC's FY 2016 consolidated financial statements. Kearney's audit resulted in the issuance of three reports, dated November 15, 2016. In the Independent Auditors Report on FCC's 2016 financial statements, Kearney expressed an unmodified opinion.

In the report on internal controls, Kearney reported two repeat significant deficiencies and one new significant deficiency. The two repeat significant deficiencies related to USF budgetary accounting and information technology. The budgetary accounting significant deficiency related to USF recoveries of prior year obligations. The information technology significant deficiency noted that FCC and USAC continue to lack sufficient reliable controls for processes over their information technology general control environment, financial management system, and third-party operating systems. The new significant deficiency relates to accounting for non-exchange revenue. Kearney found that the FCC's Financial Operations office recognized revenue before all the criteria for revenue recognition had been met. This resulted in a significant overstatement of non-exchange revenue in the FCC's interim financial statements.

Kearney's report on compliance and other matters did not identify any instances of non-compliance in FY 2016.

### Fiscal Year 2016 Federal Information Security Management Act Evaluation (Report No. 16-EVAL-06-01)

The 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

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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 evaluate agency information security programs and practices annually. The evaluations must include testing of a representative subset of information systems, and based on that testing, make an assessment of the agency's compliance with FISMA and other applicable requirements. FCC contracted with Kearney to perform the FY 2016 FISMA evaluation. The FY 2016 FISMA Evaluation report was issued on December 09, 2016.

During this semiannual period, Kearney identified 12 findings and offered 39 recommendations intended to improve the effectiveness of the FCC's information security program controls. Of the 39 recommendations reported, 25 were repeated from the FY 2015 FISMA evaluation and 22 address information security weaknesses identified as significant deficiencies.

Inspection of the FCC Government Charge Card Program  
(Report No. 15-INSP-09-02)

OA performed an inspection to assess risk associated with the FCC's Government Charge Card Program for the period October 1, 2014 through September 30, 2015. The inspection objective was to analyze the risk of illegal, improper, or erroneous purchases within the FCC Government Charge Card Program. The review included purchase and travel cards. We determined that the FCC needs to improve its monitoring to help detect travel card misuse and ensure that increases in purchase card holders' monthly spending limits are appropriate. Additionally, purchase card policies and procedures need to be updated.

We made five recommendations to improve the monitoring of travel and purchase card activity and enhance policies and procedures for purchase cards. We issued the final inspection report on December 5, 2016. FCC management concurred with the report findings and recommendations.

Inspection of FCC's Parking Management Services (Report No. 15-INSP-10-01)

OA conducted an inspection of the FCC's Parking Management Services contract. The

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inspection objective was to ensure the contractor was performing tasks related to the remittance of funds in compliance with contract provisions. The scope of the inspection included parking funds collected by the contractor and remitted to the FCC from April 1, 2011 through September 30, 2015.

We concluded that the FCC did not sufficiently monitor the contractor's performance to ensure the amount of funds the contractor remitted to the FCC complied with the terms of the contract. As a result, the contractor retained funds that were not allowed per the contract. We recommended that management develop a checklist to ensure future contract monitoring files include documentation for contractor performance evaluations, including records of management's discussions pertaining to the contractor's performance. We also recommended that the FCC resolve any overpayments and other discrepancies with the contractor before the contract is closed-out. We issued the Parking Management Services inspection report on March 9, 2017. FCC management concurred with the report's findings and recommendations.

Inspection of FCC's Readiness for the Digital Accountability and Transparency Act of 2014 (Report No. 16-INSP-11-01)

OA performed an inspection to determine the FCC's compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act). We performed this inspection to assess the FCC's progress towards implementing DATA Act requirements by the May 9, 2017 reporting deadline. We found that the FCC is substantially prepared to report the required contract and financial data for its annual and auctions appropriations to the U.S. Department of Treasury for posting on the USASpending.gov website by the deadline. However, the FCC had not yet determined whether it is required to submit financial data for the USF and TRS Fund. As a result, if the FCC is required to report such data, it may not meet the DATA Act deadline. We also found that the FCC needs to complete and document its processes and procedures for reconciling contract and financial data needed for DATA Act reporting.

The inspection report, issued on March 28, 2017, made four recommendations. Three recommendations were related to coordination and contingency planning activities the FCC should undertake to resolve questions regarding the DATA Act's applicability to the USF and TRS Fund. We also recommended that the FCC develop and implement policies and procedures

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for reconciling information from the Federal Procurement Data System to FCC's core financial management system. FCC management concurred with the report's findings and recommendations.

### **In-Process OFID Audits and Other Projects**

OFID had three projects in-process at the close of the semiannual reporting period. Those projects, one mandatory and two discretionary, were contracted to IPA firms.

Audit of FCC's Compliance with The Improper Payments Elimination Recovery and Improvement Act (Project No. 17-AUD-01-01)

Audit of Auctions Risk Management (Project No. 16-AUD-11-05)

Website Security Assessment (Project No. 16-EVAL-09-06)

### **Universal Service Fund Division**

USFD conducts audits, inspections and evaluations of USF program initiatives, service providers and beneficiaries. The projects are designed to detect and prevent fraud, waste, and abuse. The USFD projects and related initiatives also promote economy, effectiveness and efficiency of USF programs. The USFD is organized into three operational teams focusing on USF program areas, Schools and Libraries, High Cost, and Lifeline, as well as contributors.

### **Completed USFD Audits**

Audit of High Cost Transformation Order (Report No. 15-AUD-04-04)

OA contracted with an IPA firm to conduct a performance audit of the FCC's implementation of the reforms mandated by the Universal Service Fund High Cost Program Inter-Carrier Compensation Systems Transformation Order (FCC 11-161). The objectives of the audit were to: 1) prepare a list of all mandates identified in the Transformation Order; 2) determine the entity, or entities, responsible for implementing each mandate, and the timeline for completion;

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3) determine whether the FCC is adequately disclosing the implementation status of the mandates; and 4) determine whether the process of implementing the mandates could be improved.

The audit report was issued on December 5, 2016. The auditors found that the FCC has made significant progress in implementing the requirements of the Transformation Order, and management's reporting to stakeholders was generally accurate and complete. However, the auditors identified two findings representing areas needing improvement. First, the FCC did not have a comprehensive project management system for tracking and reporting on its implementation of the Transformation Order. Second, management could have more clearly reported the status of the implementation of two mandates to improve the FCC's accountability and transparency in implementing the Order. The report included recommendations to correct deficiencies noted in the findings. FCC management generally concurred with the audit report's findings and recommendations.

#### Audit of Hardy Cellular Telephone Company (Report No. 14-AUD-08-02)

OA conducted a performance audit of Hardy Cellular Telephone Company (Hardy). The objective of the audit was to determine: 1) the accuracy of revenue information reported on Hardy's 2014 FCC Form 499-A, Telecommunications Worksheet; and 2) Hardy's compliance with FCC rules, 47 C.F.R. Part 54.706 to 54.713 and related orders regarding the USF Contributor program. The audit tests were limited to an evaluation of the completeness and validity of Hardy's subscriber listing and FCC Form 497, Lifeline Worksheet, dated January 2013.

The audit found 1) Hardy's reported bad debt expense was not in proportion to the gross revenues reported on its 2014 FCC Form 499-A; and 2) Lifeline certifications were missing for subscribers associated with Hardy's FCC Form 497. The audit report recommended that Hardy revise the amount of bad debt expense it reported on its 2014 Form 499-A and revise its January 2013 Form 497, eliminating subscribers for which it was missing certifications. Hardy's management concurred with the audit report's first finding but did not concur with the second.

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### **In-Process USFD Audits and Other Projects**

USFD had seven projects in process at the conclusion of this semiannual reporting period.

Audit of Phase I of the Connect America Fund (High Cost) (Project No. 15-AUD-09-11)

Audit of Interstate Common Line Support (High Cost) (Project No. 16-AUD-01-01)

Audit of High Cost Program Beneficiary (Project No. 15-AUD-02-01)

Audit of West Baton Rouge Parish Central Office (E-Rate) (Project No. 17-AUD-05-02)

Audit of Nexus Communications (Lifeline) (Project No. 15-AUD-07-05)

Audit of National Lifeline Accountability Database (Project No. 15-AUD-10-09)

Audit of Northeast Colorado Cellular, Inc. (Contributor) (Project No. 16-AUD-05-03)

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## REPORTING REQUIREMENTS

The following are OIG's response to the 13 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 "Office of Audit" 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 "Office of Audit" 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.

*Information technology project recommendations represent significant recommendations from previous semiannual reports for which corrective actions have not been completed. The FY 2016 Federal Information Security Modernization Act (FISMA) Evaluation (Report no. 16-EVAL-06-01) reported 39 recommendations, of which 25 were repeat recommendations from the FY 2015 evaluation. Additionally, several findings reported are repeat findings from prior years, with some dating back to 2008. The FCC Electronic Mail Security Assessment (Report no. 15-EVAL-07-01) was issued in FY 2015 and reported 33 recommendations, of which 9 remain open. The recommendations identified on these projects address risk management, configuration management, identity and access management and information security continuous monitoring. The reports contain sensitive information regarding the FCC's information security program. Accordingly, the reports were not released to the public.*

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*Additionally, the Shupe and Lifeline fraud prevention recommendations, discussed above at pages 15 and 12, respectively, have not been fully addressed.*

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, inspection reports, and evaluation reports 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 “Office of Audit” section of this report. We reported a total of \$147,376 of questioned costs during the reporting period (see Report no. 15-INSP-10-01, Inspection of FCC’s Parking Management Services and Report no. 14-AUD-08-02, Audit of Hardy Cellular Telephone Company). See Table 1 for the status of questioned or unsupported costs reported in the current and prior semiannual periods.*

7. A summary of each particularly significant report.

*Each significant audit and investigative report issued during the reporting period is summarized within the “Office of Audit” and “Office of Investigations” sections.*

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

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*See Table 1 of this report.*

9. Statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the dollar value of recommendations that funds be put to better use by management.

*See Table 1 of this report.*

10. A summary of each audit report, inspection reports, and evaluation reports 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.

*We identified seven audit and other reports issued before the commencement of the reporting period for which a management decision was pending or the proposed corrective action date had lapsed at the end of the reporting period. See Appendix B for additional details.*

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.*

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**TABLE 1**

<b>OIG Reports with Questioned Costs</b>		
<b>Status of OIG Reports with Questioned Costs</b>	<b>Number of Reports</b>	<b>Questioned/ Unsupported Costs</b>
A. No management decision has been made by the commencement of the reporting period.	4	\$1,376,884
B. Issued during the reporting period.	2	\$147,376
C. Management decision made during the reporting period.		
Value of disallowed costs.	1	\$275,974
Value of costs not disallowed.		
D. Management decision not made by the end of the reporting period.	6	\$1,248,286

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## APPENDIX A

### Peer Review Results

The Inspector General Act of 1978, as amended, requires OIGs to report the results of peer reviews of their operations conducted by other OIGs, the date of the last peer review, outstanding recommendations from peer reviews, and any peer reviews conducted on other OIGs during the semiannual period. Peer reviews are conducted by member organizations of the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

During the prior reporting period, the Special Inspector General for Troubled Asset Relief Program (SIGTARP) OIG reviewed the FCC OIG Office of Audit's (OA) system of quality control. Based on their review, SIGTARP OIG determined that OA's system of quality control in effect for the year ended March 30, 2016, was suitably designed to provide reasonable assurance that OA is performing and reporting in conformity with applicable professional standards in all material respects. OA received a peer review rating of "Pass."

SIGTARP OIG's letter of comment contained three recommendations that, while not affecting the overall opinion, were designed to further strengthen OA's system of quality control. These recommendations have been addressed and corrective action has been taken. In particular, OA has completed in-house training and issued policy on tracking continuing professional education in response to the SIGTARP Peer Review letter of comment. Additionally, our Audit Manual is being updated to strengthen guidance in areas where weaknesses were noted by the SIGTARP peer review.

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## APPENDIX B

### Reports Issued in Prior Periods for which a Management Decision is Pending

As of March 31, 2017

Report Number	Audit Title	Report Date	Comments
10-AUD-11-01	Audit of Hampstead Hill Elementary School	12/19/2012	During the period 3 of the 7 open recommendations were closed. A management decision was issued for the remaining 4 recommendations, but the proposed corrective action dates have lapsed.
12-AUD-12-20	Audit of FCC Compliance with OMB A-130 Audit	3/12/2014	Management submitted closure requests for 2 recommendations. However, the corrective action dates have lapsed for 4 recommendations.
12-AUD-12-19	Audit of FCC Compliance with Red Light Rule: Debt Collection	6/4/2014	Six recommendations remain open and the corrective action dates have lapsed.
12-AUD-01-04	Lifeline Audit of Easy Telephone	9/30/2013	Management decision was made, but the proposed corrective action date has lapsed.
12-AUD-01-05	Lifeline Audit of Absolute Home Phones	9/30/2013	Management decision was made, but the proposed corrective action date has lapsed.
12-AUD-01-12	Lifeline Audit of Affordable Phone Service	9/30/2013	Management decision was made, but the proposed corrective action date has lapsed.
15-EVAL-07-01	FCC Electronic Mail Security Assessment	9/30/2015	The corrective action dates have lapsed for 2 recommendations. A total of 14 recommendations were closed and 9 remain open.



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