

**Federal Communications Commission  
Office of Inspector General**



**Semiannual Report to Congress  
October 1, 2017—March 31, 2018**

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## THE FEDERAL COMMUNICATIONS COMMISSION



**Left to Right:**

**Commissioner Brendan Carr, Commissioner Mignon Clyburn, Chairman Ajit Pai, Commissioner Michael O’Rielly, Commissioner Jessica Rosenworcel**

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## COVER MEMORANDUM

**DATE:** May 10, 2018

**TO:** Chairman Ajit Pai, Federal Communications Commission  
Commissioner Mignon Clyburn  
Commissioner Michael O'Rielly  
Commissioner Brendan Carr  
Commissioner Jessica Rosenworcel

**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, 2018. 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**

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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, Michael O'Rielly, Brendan Carr and Jessica Rosenworcel 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. App., as amended (IG Act), and 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**

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In this semiannual report, we discuss both the major accomplishments and activities of the OIG from October 1, 2017 through March 31, 2018, as well as its goals and future plans.

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## OFFICE OF MANAGEMENT

### **Office Staffing**

Currently our office consists of 50 highly-educated, experienced administrative and professional 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 sponsored by government agencies, including the Council of Inspectors General on Integrity and Efficiency, and Federal Law Enforcement Training Center; and professional organizations, such as the Institute of Internal Auditors, American Institute of Certified Public Accountants, Association of Governmental Accountants, and the Association of Certified Fraud Examiners.

### **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).

### **Process Improvement**

Since mid-2017, FCC OIG Investigations has been using Amazon Web Services' (AWS), a FedRAMP compliant secure cloud platform, to expand analytical capacities and improve data processing, primarily relating to OIG's investigations of waste, fraud, and abuse in the Universal Service Fund programs. Prior to leveraging AWS, OIG's data analytics relied solely on local on-premise datacenter and virtual servers for running various SQL database management systems. Shifting some of our large dataset processing functions to AWS enables OIG to dynamically scale up our analytical capabilities and reduce processing time, even when working with ever larger datasets containing millions of records. Investigative data work that previously required weeks of processing can now be executed in a matter of hours or days on the AWS platform.

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### **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. We note that in this reporting period, legislation was passed changing the status of the FCC inspector general. Section 501(a) of the Ray Baum's Act of 2018 amended Sec. 8(G)(a)(2) of the Inspector General Act to provide that the FCC inspector general is to become a presidentially-appointed position. However, Section 501(b) provides that the status quo remains until such time as a permanent IG is appointed by the president.

Further, during the reporting period, we shared updated recommendations to prevent and detect fraud in the E-Rate program with Commission and Universal Service Administrative Company (USAC) staff. *See infra* pp. 12-14.

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 may also be referred by OIG auditors.

In addition to investigations regarding Commission programs, OI investigates 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, seventy-four cases were pending. Over the last six months, eleven cases have been closed and fourteen opened. As a consequence, a total of seventy-seven 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.

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## Statistics

Cases pending as of October 1, 2017 = 74

New Cases = 14

Cases Closed = 11

Cases pending as of March 31, 2018 = 77

## **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 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.

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,

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Internet access, and internal connections. Over 127,000 schools and libraries benefited from the program in calendar year 2017, bringing internet services including expanded WiFi networks and high speed broadband connectivity to millions of students and library patrons. E-Rate authorized funding totaled \$2.65 billion in program year 2017.<sup>1</sup>

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 10 million low-income households throughout the nation benefited from 2017 program year payments of approximately \$1.26 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 3,000 contributors submitted total contributions of approximately \$7.83 billion in 2017.

The bulk of OI's involves investigating and supporting civil and criminal investigations and prosecutions of fraud in the FCC's federal universal service programs. The AIGI and

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<sup>1</sup> OIG relies upon USAC's annual reports for the statistics regarding number of schools served. USAC changed its reporting in its 2017 Annual Report to report calendar year statistics versus E-rate Funding Year statistics. Therefore, if viewing this SAR in conjunction with past SARs, a substantial increase in the number of schools and libraries served by the E-rate Program will be noted, reflecting USAC's 2017 Annual Report.

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Investigations staff work routinely with other state, local and federal agencies on these matters. These coordinated investigatory and prosecutorial efforts, especially those involving 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 a few matters that have had public developments during the reporting period:

### **Lifeline Program**

#### *Lifeline Investigations Ongoing*

In May 2017, the Government Accountability Office (GAO) issued a report on the Lifeline program noting more than 6,000 individuals enrolled in Lifeline at the time of the audit were enrolled, recertified or both, after having been reported to the government as deceased. (See U.S. Gov’t Accountability Office, GA-17-538, *Telecommunication: Additional Action Needed to Address Significant Risks in FCC’s Lifeline Program*, May 2017). In October 2017, OI completed its own analysis and determined eligible telecommunications carriers (ETCs) have enrolled tens of thousands of previously-deceased individuals into the Lifeline program since 2014. Moreover, OI determined ETCs have fraudulently collected millions of dollars in USF monies on behalf of these subscribers. Specifically, OI’s analysis showed that since National Lifeline Accountability Database (NLAD) was implemented in 2014, at least 44,500 already-deceased individuals were enrolled in Lifeline and ETCs have received more than \$4.5M in reimbursements for services provided to these “subscribers.” At the time of OI’s analysis, nearly 4,000 such subscribers were being claimed by ETCs.

OI pursued a multi-pronged course of action. First, we communicated a detailed set of findings to senior leadership at USAC and the Commission. Second, we prepared additional recommendations to mitigate the risk of identity fraud in the Lifeline program for USAC and the

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Commission to consider. Moreover, OI met with these stakeholders to discuss both OI’s findings and supplemental recommendations. Among the most important new recommendations, the Commission should require ETCs to submit more detailed and specific plans as part of the ETC qualification process and the Commission should monitor and police the implementation of such compliance plans once approved. Finally, OI initiated a series of investigations and issued subpoenas to ETCs who enrolled and sought reimbursement for providing service to deceased subscribers. FCC-OIG’s investigations are ongoing.

### *TerraCom Investigation*

One such ETC was TerraCom Inc. On November 29, 2017, OI sent TerraCom a subpoena to request documents and information related to the company’s enrollment of deceased individuals into the Lifeline program. The company produced the requested documents and information. Upon further analysis, OI determined the company performed a contemporaneous investigation when it first learned a company agent had enrolled a large number of very elderly individuals. After learning the agent had actually enrolled deceased individuals, the company required other subscribers enrolled by that agent to provide additional proof of eligibility. TerraCom amended its Form 497s to return all funding received on behalf of the deceased subscribers. Finally, the company began using one of its third-party vendors not only to verify applicant identities but to confirm deceased status for its applicants. As a result of TerraCom’s proactive steps, OI closed this investigation with no further action.

### Lifeline Team Recommendations

As reported in several recent SARs, OI’s Lifeline Investigation team developed and shared a series of recommendations with the Commission and USAC aimed at the reduction of fraud in the program based on the team’s investigative findings. (See FCC OIG SAR April 1, 2016 – September 30, 2016, p. 25, FCC OIG SAR October 1, 2016 – March 31, 2017, p. 12, and FCC OIG SAR April 1, 2017 – September 30, 2017). The Investigation team supplemented those recommendations after the discovery of the deceased subscriber issue discussed above and delivered the enhanced recommendations to the Commission. Some of the previously-provided recommendations have been adopted, while others remain outstanding. We have asked management for a status update.

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### *Lifeline Fraud Tip Line*

In 2012, the FCC established a Lifeline Fraud Tip Line to provide Lifeline customers and applicants a means to report fraudulent, wasteful or abusive practices in the program. OI monitors messages recorded over the Tip Line, which is administered by the Enforcement Bureau. OI recently concluded the Tip Line was not fulfilling its intended purpose because rather than reporting fraud, waste and abuse, most of the messages left on the Tip Line concerned customer service issues, stolen identities, duplicate accounts, incorrect Lifeline company records, and misuse of personal information. These complaints are best addressed, in the first instance, by USAC, as it has immediate access to the customer Lifeline company information necessary to timely respond to and resolve these issues.

At OI's recommendation, the Enforcement Bureau recently instituted a change in the messaging on the Tip Line. The recorded message will now direct customers to USAC's Lifeline Support Center to resolve certain matters. This will greatly enhance service for those seeking assistance. Fraud, waste and abuse will also be reduced in the program because Lifeline service will be more quickly terminated to those individuals reported and found to have come into possession of stolen or lost Lifeline cell phones or those enrolled under fraudulent pretenses. Those who wish to report fraud, waste and abuse in the program may still do so by leaving messages on the Lifeline Fraud Tip Line. 1-855-4LL-TIPS (1-855-455-8477) or [Lifeline@fcc.gov](mailto:Lifeline@fcc.gov).

### **E-Rate Program**

#### *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 and anticipates indictments in multiple investigations during the next reporting period.

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### *Nova Charter School and ADI Engineering*

On December 20, 2017, a federal grand jury charged Donna Woods, Chief Executive Officer at Nova Charter School (Nova), and Donatus Anyanwu, owner of E-Rate service provider ADI Engineering, with offenses related to a scheme to defraud the E-Rate program. The indictment alleges Woods used her position at Nova to select ADI as Nova's E-Rate service provider, a bid worth approximately \$478,000. In return, Woods received a kickback exceeding well over \$5,000 from Anyanwu. The indictment further alleges Woods and Anyanwu perpetuated the fraud by falsifying forms indicating Nova complied with E-Rate program rules and that no kickbacks were paid. Over the course of the conspiracy, ADI was paid approximately \$337,951.06 in E-Rate discount funds it was not entitled to receive.

### *Topock Elementary School District*

A former business manager of the Topock Elementary School District (TESD) located in Topock, Arizona, allegedly defrauded the District of \$236,548 from December 2008 through July 2013. The former business manager, her daughter, and the owner of service provider JD Tech Services, engaged in a scheme whereby the business manager issued payments from TESD to the service provider owner based on false vendor numbers and false purchase order descriptions. Thereafter, the service provider owner drafted personal checks to the former business manager worth approximately 90% of the value of those payments, and kept the remainder for himself.

The Arizona Attorney General's Office indicted the daughter in August 2017, for fraud, theft and forgery. The former business manager has since passed away, as has the service provider owner. OI recommended the Commission attempt to recover the funds disbursed and also recommended the E-rate Program Administrator view with heightened scrutiny those situations where a service provider exclusively does business with one applicant or provides only basic maintenance, as occurred in this situation.

### Previous E-Rate Program Recommendations

During the previous reporting period, OI's E-Rate team developed two recommendations to increase compliance with program rules and strengthen OI's ability to detect fraud, waste and

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abuse. As detailed below, OI's recommendation concerning the retention of information by USAC has been instituted and progress is currently being made on the creation of an online competitive bid repository within E-Rate Productivity (EPC).

*Creation of an Online Competitive Bid Repository within EPC*

Recently, OI has held discussions with both USAC and Wireline Competition Bureau (WCB) related to our previous recommendation regarding the creation of an online competitive bid repository within E-rate Productivity Center (EPC). Both WCB and USAC are currently assessing this recommendation. We will continue to pursue this matter and provide our input when requested. It is our hope USAC will be able to create this repository in connection with the additional changes to EPC anticipated by USAC.

*Suspension and Debarment Recommendation*

As noted in the previous SAR, OI has been tracking Commission efforts to expand the Commission's suspension and debarment criteria to cover additional circumstances not yet addressed. Currently, suspension and debarment actions at the Commission are extremely limited and only occur in instances where a criminal conviction or civil judgment arising out of activities associated with or related to the USF has occurred. The limited nature of this criteria hamstrings both OI and the Commission's efforts to protect the USF from non-responsible persons and entities.

OI is aware a suspension and debarment reform draft has been created by the Commission's Office of General Counsel, but has yet to be instituted. OI continues to recommend the Commission expand its suspension and debarment program.

*Identification of Potential Discount Rate Discrepancies*

As noted in the previous SAR, in response to perceived discrepancies between the reported percentage of students eligible for free/reduced lunches and that observed by members of OI's E-Rate team at various schools during site visits, OI has undertaken an investigation into potential fraudulent reporting of National School Lunch Program numbers by applicants to USAC. This investigation is ongoing.

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## Rural Health Care Program

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 Tams

OI has closed its yearlong investigations into two *qui tams* that alleged competitive bidding violations by a state as well as E-Rate vendors. OI found the underlying allegations lacked merit. The *qui tams* remain under seal.

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) programs. *See* SARs for Oct. 1, 2014 - March 31, 2015; April 1, 2015- September 30, 2105; Oct 1, 2015 - March 31, 2016 and April 1, 2017 – September 30, 2017.

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.

We are pleased to report that recently, in *U.S. ex rel. Furtell and Gornstein v. E-rate Program, LLC*, No. 4-14-CV02063-ERW, E.D. Mo (2017), the District Court for the Eastern District in Missouri specifically rejected the reasoning in *Shupe*, holding that E-Rate funds are protected by the FCA.

Moreover, after years of OIG urging, the FCC is now in the process of transferring USF funds from a third-party banking institution to the Treasury. Because this move, scheduled for completion this year, will address the *Shupe* court’s major concern, we are hopeful it will be a significant development towards protecting future USF funds.

Regardless, the pall of *Shupe* remains, and until numerous circuit courts reject its reasoning, the continued utility of the FCA for purposes of protected USF Funds remains at risk and the

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government may lose the ability to recover hundreds of millions of dollars of USF fraud perpetrated prior to any movement of funds to the Treasury. Thus, we continue to 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 three cases and closed one case.

### *Employee Violations of Multiple Ethical and Administrative Rules*

In previous SARs, OI reported closure of an investigation involving three employees: Employee Violations of Multiple Ethical and Administrative Rules (misuse of Commission facilities to conduct personal business and view pornography and time and attendance abuse). *See* SARs for Oct. 1, 2015 - March 31, 2016; April 1 – September 31, 2017 and October 1, 2017 – March 31, 2018. As a result of the investigation, the Commission terminated two of the employees. One of the two employees appealed the termination to the Merit Systems Protection Board (MSPB). In December 2017, the MSPB Administrative Judge affirmed the Commission's decision to terminate the employee based on all but one of the charges, and rejected the employee's affirmative defenses of discrimination and due process violations.

In November 2017, the Commission entered into a Last Chance and Abeyance Agreement with the third employee and issued a 90 day calendar suspension and repayment plan for employee's claimed absent without leave status.

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## **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:

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 foster a mutually satisfactory resolution of the complaint between the service provider and its customer.

During the current reporting period, OIG received:

1. 3579 Hotline contacts. Of these, one was referred to OIG for possible case openings.<sup>2</sup>
2. 74 were referred to FCC Consumer Center or other FCC Bureaus.
3. 286 were referred to other agencies including the FTC.

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<sup>2</sup> Forty-two Hotline contacts concerned alleged favoritism by the FCC Chairman on behalf of Sinclair Broadcasting and in connection with the Commission's media ownership rules.

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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 (GAGAS), also known as the Yellow Book, and Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspections and Evaluations.

OA is organized into two auditing and 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 mandatory and discretionary audits, inspections, and evaluations designed to promote economy and efficiency in FCC operations and to prevent and detect fraud, waste and abuse. OFID's mandatory projects include the Annual Financial Statement audit, Federal Information Security Management Act (FISMA) evaluation, Digital Accountability and Transparency Act audit, Improper Payments Elimination and Recovery Improvement Act compliance audit, and Review of Government Charge Card Risks. OFID contracts with Independent Public Accountant (IPA) firms for the majority of the mandated projects. OFID provides oversight and monitoring for all contracted audit services.

During the reporting period OFID completed three mandatory audits and one discretionary audit. Two projects were in process at the end of the reporting period and will be summarized in a future reporting period.

### Completed Mandatory Audits, Inspections, and Evaluations

Audit of the FCC Fiscal Year 2017 Consolidated Financial Statements  
(Report no. 17-AUD-07-03)

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Federal law requires the FCC to prepare annual consolidated financial statements and requires the OIG to audit those financial statements. Under the oversight of OA, Kearney & Company (Kearney), an IPA firm, performed the audit of the FCC's FY 2017 consolidated financial statements. Kearney's audit resulted in the issuance of three reports dated November 15, 2017.

In the Independent Auditors Report on FCC's 2017 financial statements, Kearney expressed an unmodified opinion.

In the report on internal controls, Kearney reported two repeat significant deficiencies. Kearney found several invoicing errors in one of USAC's automated system that put USAC at risk of inappropriately deobligating \$29 million of program funds in FY 2018. Kearney also found that the FCC had not implemented effective policies and processes over its general support system, FCCNet, and its financial management system, Genesis. FCC management concurred with the report's findings and recommendations.

Kearney's report on compliance and other matters did not identify any reportable instances of non-compliance in FY 2017. Kearney noted that the FCC continues to research a potential instance of non-compliance with the Antideficiency Act, which was originally communicated in the FY 2011 financial statement audit report.

#### Audit of the FCC Fiscal Year 2017 Digital Accountability and Transparency Act of 2014 (Report no. 17-AUD-08-04)

The Digital Accountability and Transparency Act (DATA Act) of 2014 requires Federal agencies to report financial and spending information to the public, through USA Spending.gov, in accordance with Government-wide financial data standards developed and issued by the Office of Management and Budget and the Department of Treasury. OA contracted with Kearney to audit the FCC's fiscal year 2017 second quarter financial and award data that was reported to the Department of Treasury for publication on USA Spending.gov. The audit report was issued on November 7, 2017.

The auditors found that the FCC's financial and award data submission was incomplete. Specifically, the FCC did not submit component entity spending data for the Universal Service

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Fund or the Telecommunications Relay Service fund. The auditors also found that the spending data included in the FCC's DATA Act Submission was inaccurate and did not meet OMB quality requirements. Additionally, the audit identified instances where FCC failed to provide supporting documentation for its spending data, as well as instances where the supporting documents provided included errors in one or more data elements. FCC management concurred with the report's findings and recommendations.

Fiscal Year 2017 Federal Information Security Modernization Act Evaluation  
(Report no. 17-EVAL-07-01)

OIGs are required to annually evaluate agency information security policies, procedures, 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. OA contracted with Kearney to perform the FY 2017 FISMA evaluation. The Department of Homeland Security's FY 2017 IG FISMA Reporting Metrics are an integral part of the FISMA report. The OIG submitted the completed FISMA reporting metrics questionnaire to Department of Homeland Security on October 30, 2017 for government-wide reporting to Congress. The FY 2017 FISMA evaluation report was issued on December 26, 2017.

Kearney concluded that the Commission's information security program was not in compliance with FISMA legislation, OMB guidance, or applicable NIST Special Publications. Overall, Kearney identified nine findings within six of the seven FISMA metric domains: Risk Management, Configuration Management, Identity and Access Management, Information Security Continuous Monitoring, Incident Response, and Contingency Planning. Kearney noted that the FCC has made progress and should continue to focus on improving compliance in the Risk Management, Identity and Access Management, and Information Security Continuous Monitoring security control domains. Kearney offered 24 recommendations to strengthen the Commission's information security program. Management generally concurred with the report's findings and recommendations.

Audit of the FCC Auctions and Spectrum Access Division of the Wireless Telecommunications Bureau (Report No. 16-AUD-11-05)

OA contracted with an IPA firm to evaluate risk management within the Commission's Auctions and Spectrum Access Division (Auctions Division) of the Wireless Telecommunications Bureau.

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The audit objectives were to: 1) evaluate the effectiveness and efficiency of the Auctions Division's process for identifying internal and external risk, and documenting and communicating risk; 2) evaluate the Auctions Division's risk management strategy; 3) determine if the Auctions Division adequately managed risk to meet agency goals and objectives and; 4) identify and assess key internal controls in place to ensure the Auctions Division meets its goals and objectives.

The audit disclosed four findings addressing weaknesses in the Auctions Division's internal control processes. The first finding noted that the Auctions Division's management should strengthen its risk management process to improve its effectiveness in identifying risk. The remaining three findings discussed the lack of policies and procedures for bid monitoring, Need-to-Know List administration, and phone recording logs. The auditors provided 10 recommendations to address the findings. Management concurred with each of the report findings and recommendations. The final report was issued January 18, 2018.

#### In-Process Audits and Other Projects

OFID had two mandatory projects in-process at the close of the semiannual reporting period.

Audit of FCC's Compliance with The Improper Payments Elimination Recovery and Improvement Act (Project no. 18-AUD-01-02)

Purchase and Travel Card Inspection (Project no. 18-INSP-04-01)

#### Universal Service Fund Division

The Universal Service Fund Division (USFD) conducts audits, inspections and evaluations of USF program service providers and beneficiaries. USFD projects are designed to detect and prevent fraud, waste, and abuse, and promote economy, effectiveness and efficiency of USF programs. The USFD is organized into three operational teams, focusing on USF program areas, as well as contributors. To leverage our resources, USFD is developing risk profiles for each USF program by identifying, categorizing and monitoring risk. In developing data for the risk profiles, we will perform random and targeted audit testing of beneficiaries. Our risk profile modeling will help identify the most cost-effective audits and help conserve our limited resources. USFD coordinates with USAC's Internal Audit Division when planning audits and

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other projects to ensure both organizations complement the work of the other, and do not perform duplicate work. We share information on USF program risks, audit results, testing tools, and USF program and policy. USFD completed one audit during the reporting period. Five projects were in-process at the end of the reporting period and will be summarized in a future reporting period.

#### Completed USF Audits

##### Audit of USAC’s Implementation of the National Lifeline Accountability Database (Project No. 15-AUD-10-09)

The National Lifeline Accountability Database (NLAD) was implemented to identify and resolve duplicate claims for Lifeline Program-supported service and prevent duplicate payments. USFD contracted with an IPA firm to conduct a performance audit on USAC’s implementation of NLAD. The primary objective of the audit was to determine if USAC implemented NLAD in accordance with the FCC’s 2012 Lifeline Reform Order.

The audit determined that USAC had fully implemented NLAD and that it was functioning as designed, consistent with the requirements of the FCC’s 2012 Lifeline Reform Order. However, the audit identified four weaknesses that may jeopardize the integrity and security of data maintained within NLAD. USAC management agreed with the majority of the 20 audit report recommendations. The audit report, issued March 26, 2018, contains non-public information, including information on processes and controls designed to detect and prevent fraud and abuse, and sensitive IT security information. To the extent possible, the audit report will be redacted and posted on the OIG’s web page.

#### In-Process USF Audits

USFD had five audits in process as of the end of the reporting period. USFD has issued draft reports for three of the five audits. The final audit reports will be presented in a future reporting period.

##### Audit of Adak Eagle Enterprises (High Cost Program) (Project no. 15-AUD-02-01)

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Audit of the Connect America Fund, Incremental Support, Phase I (High Cost Program)  
(Project no. 15-AUD-09-11)

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

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

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

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## REPORTING REQUIREMENTS

The following are OIG's response to the 22 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. Currently there are 33 open IT recommendations, identified on prior FISMA and IT audits, that were reported in prior semiannual reports. The recommendations identified on FISMA 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.*

*Recommendations to help detect and deter fraud, waste and abuse in the E-Rate and Lifeline Programs mentioned in this and in previous semiannual reports are also significant recommendations that have not been implemented. However, during this reporting period, the Office of the Managing Director has requested additional details regarding these*

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*recommendations and has assigned a point of contact who has been directed to work with OIG in this regard.*

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) of the Inspector General Act of 1978, as amended, during this reporting period.*

6. A listing, subdivided according to subject matter, of each audit report, inspection report, and evaluation 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.

*No reports made recommendations that identified questioned costs or funds put to better use during the reporting period. See Table 1 for the status of questioned or unsupported costs.*

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 (including a separate category for the dollar value of unsupported costs), for reports—(A) for which no management decision had been made by the commencement of the reporting period; (B) which were issued during the reporting period; (C) for which a management decision was made during the reporting period, including—(i) the dollar value of disallowed costs; and (ii) the dollar value of costs not disallowed; and (D)

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for which no management decision has been made by the end of the reporting period.

*See Table I of this report for the status of questioned, unsupported or disallowed costs.*

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, for reports—(A) for which no management decision had been made by the commencement of the reporting period; (B) which were issued during the reporting period; (C) for which a management decision was made during the reporting period, including—(i) the dollar value of recommendations that were agreed to by management; and (ii) the dollar value of recommendations that were not agreed to by management; and (D) for which no management decision has been made by the end of the reporting period.

*See Table I of this report for the status of questioned, unsupported or disallowed costs.*

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 (A) for which no management decision had 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; and (B) for which no establishment comment was returned within 60 days of providing the report to establishment; and (C) for which there are any outstanding unimplemented recommendations, including the aggregate potential cost savings of those recommendations.

*See Appendix B of this report.*

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

*No management decisions fall within this category.*

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

*No management decisions fall within this category.*

13. The information described under section 804(b) of the Federal Financial Management Improvement Act of 1996.

*No reports required by 804(b) of the Federal Financial Management Improvement Act of 1996 were issued during this reporting period.*

14. An appendix containing the results of any peer review conducted by another Office of Inspector General. If no peer review was conducted within the reporting period, a statement identifying the date of the last peer review conducted by another Office of Inspector General.

*We did not undergo a peer review by another Office of Inspector General during this reporting period. See Appendix A of this report for information on the status of the prior peer review.*

15. A list of any outstanding recommendations from any peer review conducted by another Office of Inspector General that have not been fully implemented, including a statement describing the status of the implementation and why implementation is not complete.

*No recommendations from a prior peer review by another Office of Inspector General remain open or partially implemented.*

16. A list of any peer reviews conducted by the Inspector General of another Office of the Inspector General during the reporting period, including a list of any outstanding recommendations made from any previous peer review (including any peer review conducted before the reporting period) that remain outstanding or have not been fully implemented.

*No peer review of another Office of the Inspector General was conducted during the reporting period, and no recommendations remain open for any peer reviews that we conducted in a prior period.*

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17. Statistical tables showing—(A) the total number of investigative reports issued during the reporting period; (B) the total number of persons referred to the Department of Justice for criminal prosecution during the reporting period; (C) the total number of persons referred to State and local prosecuting authorities for criminal prosecution during the reporting period; and (D) the total number of indictments and “criminal informations” during the reporting period that resulted from any prior referral to prosecuting authorities.

*The total number of investigative reports during the reporting period is set out in the Office of Investigations Section. In this reporting period, we did not refer any cases to the Department of Justice for criminal prosecution. No person was referred to State or local prosecuting authorities for criminal prosecution, and two indictments or “criminal informations” were returned during the reporting period.*

18. A description of the metrics used for developing the data for the statistical tables under paragraph (17). (Section 5 (a)(17) of the Inspector General Act of 1978, as amended).

*The Office of Investigation issues Reports of Investigation to either (1) close an investigation or (2) refer a matter for administrative action or for pursuit of civil or criminal fraud. We do not close a referred matter until it is finally resolved, that is, until action is taken by the Commission in an administrative referral or until the civil or criminal referral is (a) declined or (b) resolved by the court.*

19. A report on each investigation conducted by the Office involving a senior Government employee where allegations of misconduct were substantiated, including a detailed description of - (A) the facts and circumstances of the investigation; and (B) the status and disposition of the matter, including - (i) if the matter was referred to the Department of Justice, the date of the referral; and (ii) if the Department of Justice declined the referral, the date of the declination.

*In this reporting period, no such investigations were conducted. The results of a challenge to a previously reported investigation involving a senior Government employee are described in the Office of Investigations section,*

20. A detailed description of any instance of whistleblower retaliation, including information about the official found to have engaged in retaliation and what, if any, consequences the establishment imposed to hold that official accountable.

*No findings of whistleblower retaliation were made during this reporting period.*

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21. A detailed description of any attempt by the establishment to interfere with the independence of the Office, including— (A) with budget constraints designed to limit the capabilities of the Office; and (B) incidents where the establishment has resisted or objected to oversight activities of the Office or restricted or significantly delayed access to information, including the justification of the establishment for such action.

*Office of Audit did not experience any attempt by FCC management to interfere with the independence of the Office of Audit.*

22. Detailed descriptions of the particular circumstances of each— (A) inspection, evaluation, and audit conducted by the Office that is closed and was not disclosed to the public; and (B) investigation conducted by the Office involving a senior Government employee that is closed and was not disclosed to the public.

*No inspection, evaluation or audit was closed and not disclosed to the public. No investigation was conducted by the Office involving a senior Government employee that was closed and not disclosed.*

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**TABLE 1**

| <b>Questioned and Unsupported Costs<br/>OIG Audit, Inspection and Evaluation Reports</b> |                          |  |
|--|--------------------------|--|
| <b>Status of OIG Reports with Questioned Costs</b>                                       | <b>Number of Reports</b> | <b>Questioned/<br/>Unsupported Costs</b> |
| A. No management decision has been made by the commencement of the reporting period.     | 1                        | \$123,225                                |
| B. Issued during the reporting period.   |                          |  |
| C. Management decision made during the reporting period.                                 |                          |  |
| Value of disallowed costs.   | 1                        | \$123,225                                |
| Value of costs not disallowed.   |                          |  |
| D. Management decision not made by the end of the reporting period.                      | 0                        | \$0                                      |

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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 a 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, dated September 21, 2016, contained three recommendations that, while not affecting the overall opinion, were designed to further strengthen OA’s system of quality control. OA has completed and implemented the corrective actions recommended by the Peer Review letter of comment. OA completed in-house training and issued policy on tracking continuing professional education (CPE) on March 2, 2017. Under OA’s system of quality control, OA completed a review of CPE requirements and found that all OA members had complied with CPE requirements as of August 31, 2017. Additionally, our OIG Audit Manual, dated March 31, 2018, has been 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, 2018**

| <b>Report Number</b> | <b>Audit Report Title</b>                  | <b>Report Date</b> | <b>Comments</b>   |
|----------------------|--|--------------------|---|
| 16-AUD-11-05         | Audit of Auctions Division Risk Management | 10/29/2017         | The audit report contained 10 recommendations. Management has not provided a corrective action plan.  |
| 12-AUD-01-04         | Audit of Easy Telephone                    | 09/30/2013         | One recommendation remains open. The implementation date of March 31, 2018 has lapsed and the corrective actions have not been implemented. |
| 12-AUD-01-05         | Audit of Absolute Home Phones              | 09/30/2013         | One recommendation remains open. The implementation date of March 31, 2018 has lapsed and the corrective actions have not been implemented. |
| 12-AUD-01-12         | Audit of Affordable Phone Service          | 09/30/2013         | One recommendation remains open. The implementation date of March 31, 2018 has lapsed and the corrective actions have not been implemented. |
| 15-AUD-07-05         | Audit of Nexus Communications, Inc.        | 06/07/2017         | One recommendation remains open. A revised corrective action plan was being developed at the end of the reporting period.                   |

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**Office of Inspector General  
Federal Communications Commission  
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Washington, D.C. 20554**



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