
Federal Communications Commission Office of Inspector General

**Semiannual Report to Congress
for the period
April 1, 2014 — September 30, 2014**

The Federal Communications Commission



Left to Right:

Commissioner Ajit Pai

Commissioner Mignon Clyburn

Chairman Tom Wheeler

Commissioner Jessica Rosenworcel

Commissioner Michael O'Rielly

COVER MEMORANDUM

DATE: September 30, 2014

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

FROM: Inspector General

SUBJECT: Semiannual Report to Congress

In accordance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. 3 § 5, I have attached my report summarizing the activities and accomplishments of the Office of the Inspector General (OIG) during the six-month period ending September 30, 2014. In accordance with Section 5 (b) of that Act, it would be appreciated if this report, along with any associated report that you prepare as Chairman of the Federal Communications Commission (FCC), were forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

This report describes audits that have been completed during the preceding six months, as well as those that are in process. OIG investigative personnel continued to address issues referred to this office from a variety of sources including the Department of Justice, and to pursue proactive (self-initiated) investigations. Where appropriate, investigative and audit reports have been forwarded to the Commission's management for action. Additionally, I have described the outstanding issue of OIG’s need for criminal investigators. OIG conducts criminal investigations and therefore requests the proper personnel to conduct same. This need was highlighted in my Congressional testimony on September 17, 2014, which is described in more detail in this report.

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



David L. Hunt
Inspector General

Enclosure

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INTRODUCTION

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

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

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

This semiannual report includes the major accomplishments and activities of OIG from April 1, 2014 through September 30, 2014, as well as information on the IG's goals and future plans.

OFFICE OF MANAGEMENT

Office Staffing

OIG is comprised of 30 Full Time Equivalent (FTE) professional staff, and eight FTE support staff. OIG hired one support staff during this reporting period and there are other hiring actions in process. The current and future OIG budgets reflect our hiring needs as we continue to work toward staffing in the range of 56-60 FTEs. These expanded resources will enable us to address more and more complex areas of oversight, and we appreciate the support Congress has given us for our staffing needs.

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

Internship Program

OIG welcomes college interns throughout the calendar year. Our interns have come from schools across the country. These internships have proven to be rewarding experiences for all participants. Students leave with a good understanding of how a government agency operates, and they have the opportunity to encounter challenges while enjoying the rewards that can come from public service. In turn, OIG has benefited from the students' excellent work performance.

OFFICE OF MANAGEMENT

Inspector General Testimony to Congress

On September 17, 2014, Inspector General David Hunt testified at a hearing before the U.S. House of Representatives Subcommittee on Communications and Technology under the Committee on Energy and Commerce. The topic of the hearing was “Oversight of FCC Budget and Management.” In addition to issues brought forth in our audits of the FCC’s financial statements and information security, Mr. Hunt discussed with the subcommittee our need for criminal investigators on OIG’s staff and the FCC’s intransigence at supporting these hires. Mr. Hunt also discussed the overall control the FCC maintains over our hiring decisions and the threat this represents to our independence. Another topic, which was given extensive coverage was a strike force established by the FCC to combat fraud, waste and abuse in the FCC’s universal service program. Mr. Hunt expressed concern that this strike force could duplicate and interfere with our oversight efforts.

While OIG appreciates any effort by the FCC to combat fraud, waste and abuse within the universal service program (or anywhere, for that matter), OIG has and will continue to work these same issues. The fact that a new strike force is seemingly required by the FCC speaks to the perceived level of fraud and waste within the universal service program; the discovery of which we believe stems from OIG’s work over the years to combat same. Furthermore, the Universal Service Administration Company (USAC) is not silent on these issues (nor are the Departments of Justice, Education, and Interior), and give our office great support.

We will work with the strike force so that we ensure full cooperation with OIG. This office obviously needs to know what the strike force is doing as to not interfere with our work. If we are to coexist, the cost to taxpayers must be considered, meaning that full cooperation and coordination is key.

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

OIG counsel performed a legislative review of the 2014 Intelligence Authorization Act that places a requirement for OIG review of certain agency security clearance actions. We determined the legislation is not applicable to our Office.

OFFICE OF MANAGEMENT

Modernization Projects

OIG Information Technology Network Independence

OIG information technology (IT) is on the FCC network but segregated in order to protect OIG data from compromise. We have accomplished this segregation with both OIG dedicated services and storage devices and security protocols. We are currently working to establish email and data backup protocols which will be in addition to, and more robust than, current FCC procedures.

OIG Electronic Records Management

OIG has been developing a solution for an electronic records management system. Working with FCC IT staff, we have selected a commercial document management system, Alfresco, and are participating in high level user testing of this system. Upon acceptance, Alfresco will become the agency's electronic records management system.

OIG e-Discovery System

OIG has selected Relativity as the Office's new e-Discovery system. E-Discovery is the electronic exchange of information for extraction and analysis. Since other FCC bureaus and offices have expressed a desire to utilize OIG's e-Discovery capabilities, FCC IT staff is participating in the selection and testing process. Upon acceptance, Relativity will become the agency's e-Discovery system.

Office Space

OIG office space is in an open area on the 2nd floor of the FCC Headquarters building. Agency employees can casually walk through the OIG office area. OIG is working with FCC management to secure OIG office space but has thus far not obtained the needed security. We will update the status of this matter in future reporting.

OFFICE OF AUDIT

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

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

OA established a Data Analytics Directorate, effective July 2014. OIG has purchased an automated data analytics tool and the team is training in the use of the software for data mining and other advanced automated techniques. The team's use of data analytics tools will help OIG to leverage its limited resources, while improving the ability to identify and examine indicators of potential fraud, waste, and abuse. Additionally, the use of data analytics techniques will help OIG identify anomalies and trends in FCC programs that may lead to future audits and investigations.

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

Operations, Financial, and Information Technology Division

OFID conducts audits, inspections, evaluations, and other reviews designed to promote economy and efficiency in FCC operations and to prevent and detect fraud, waste and abuse. Mandatory assignments include the annual financial statement audit, the Federal Information Security Management Act (FISMA) evaluation, and the Improper Payments Elimination and Recovery Act compliance audit. The audits were conducted in accordance with standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Due to limited staffing, most of the projects listed below were contracted out to independent public accountants (IPAs).

Completed Audits and Other Projects

FCC Physical Security Assessment

OIG contracted with an independent public accountant (IPA) to evaluate the FCC's Physical Security Program (Evaluation Report No. 12-EVAL-12-19, issued April 10, 2014). The assessment reported twelve findings and fourteen recommendations. The objectives of the FCC Physical Security Assessment included:

OFFICE OF AUDIT

- 1) Assess the adequacy and the effectiveness of the FCC's physical security program;
- 2) determine the adequacy of, and compliance with, the FCC's physical security policies, procedures, and directives; and
- 3) determine the Commission's compliance with relevant laws, regulations, directives, standards, and guidance concerning physical security from the Office of Management and Budget, Department of Homeland Security, and National Institute of Standards and Technology.

The scope of the assessment included physical security at the FCC's headquarters in Washington, D.C. and at the Gettysburg, PA facility. Management agreed with the findings and recommendations and implemented corrective actions prior to the completion of the audit. Accordingly, OIG considers all of the reported findings resolved and the related recommendations are closed.

FCC Compliance with the Improper Payments Elimination and Recovery Act of 2010

OIG contracted with an IPA firm to obtain an audit of the FCC's compliance with the Improper Payments Elimination and Recovery Act (IPERA) for Fiscal Year 2013. The audit identified two findings and five recommendations for improvement regarding the reporting of improper payment recapture audits and overpayments. Management generally agreed with the findings and recommendations and stated that steps are being taking to enhance the quality control procedures for reporting tested and recovered amounts for internal FCC expenses and for component programs.

Audit of the Telecommunications Relay Service Fund Administrator

OIG contracted with an IPA firm for a performance audit of the Telecommunications Relay Service (TRS) Fund Administrator for the period July 1, 2011 through December 31, 2012 (Audit Report No. 12-AUD-12-17, issued August 27, 2014). The objective of the performance audit was to determine whether the Fund Administrator effectively carried out its responsibilities in administering the interstate TRS Fund in accordance with the FCC Rule, 47 C.F.R. §64.601, *et. seq.*; orders issued under Section 225 of the Communications Act of 1934, as amended; and the requirements set forth in its contract with the FCC.

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The audit concluded that the TRS Fund Administrator effectively administered the TRS Fund in accordance with the FCC Rule and the terms set forth in its contract with the FCC.

Audit of 2012 Federal Funds Paid to Video Relay Service Providers

OIG contracted with an IPA firm for a performance audit of five Video Relay Service (VRS) providers (Audit Report No. 12-AUD-12-18, issued June 27, 2014). The performance audit objectives were to:

- 1) Determine whether all federal funds paid to providers in 2012 were applied in accordance with TRS program requirements and supported by adequate documentation; and
- 2) follow up on prior year findings and recommendations.

The audit found that VRS providers' costs were supported by adequate documentation. The audit also noted that except for one finding related to non-compensable outreach activities costs, corrective actions for prior year audit findings had been implemented. The VRS funds received by four of the five VRS providers under audit exceeded the costs reported on their individual Relay Service Data Request (RSDR) form.

Red Light Rule: Debt Collection

The OIG contracted with an IPA firm to perform an audit of FCC's Red Light Rule debt collection effort, for fiscal years 2011 and 2012 (Audit Report No. 12-AU-12-19, issued June 4, 2014). The objectives of the audit were to:

- 1) Determine the effectiveness and accuracy of the recording and reporting of debt owed to the FCC;
- 2) evaluate the efficiency of collecting debt owed to the FCC;
- 3) assess the adequacy and the effectiveness of the internal controls over the process of tracking, collecting, and reporting debt owed to the FCC; and
- 4) determine the FCC's compliance with applicable laws and regulations, as well as directives, policies, and procedures related to the Red Light Rule.

The audit found that the Red Light Display system did not contain all delinquent debt, Demand Letters were not issued to all debtors, delinquent debt was not transferred to the Department of Treasury within the required timeframes, debts were written-off without proper approval, and in some instances the FCC was unable to provide documents to support debt owed to the FCC. Management generally concurred with the results of the audit.

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Audit of Information Associated with Social Media Use and Personal Identifiable Information

OIG contracted an audit with an IPA firm to determine if the FCC properly protects and manages information associated with social media use and Personal Identifiable Information (PII). The audit objectives were to:

- 1) Determine the adequacy of FCC controls to properly manage and safeguard information, including PII, collected and disseminated thru the use of social media; and
- 2) evaluate FCC compliance with federal records management, privacy, and security laws as they relate to the FCC's use of social media.

The report (Audit Report No. 12-AUD-12-21, issued May 5, 2014) identified four findings and seven recommendations. Due to the sensitive nature of the information contained in the report, the report was marked "Non-Public, For Internal Use Only" and was given limited distribution. Management generally concurred with the results of the audit.

Follow-up Inspection of the Implementation of Policies and Procedures to Improve the Purchase and Travel Card Program

OIG conducted an inspection to follow-up on findings and recommendations reported in a 2010 OIG audit of the FCC's Purchase and Travel Card Program (Audit Report No. 09-AUD-09-28 issued June 22, 2010). The objective of the follow-up inspection was to determine whether the FCC had implemented corrective action to address deficiencies reported in the 2010 report. The follow-up inspection found that the FCC had implemented corrective action that addressed all the findings and recommendations reported in the 2010 audit (Inspection Report No. 12-INSP-06-03, issued September 30, 2014).

OFFICE OF AUDIT

In-Process Audits and Other Projects

Audit of the FCC Fiscal Year 2014 Consolidated Financial Statements

The Chief Financial Officers Act of 1990 (CFO Act), as amended, requires OIG, or an independent external auditor, as determined by the Inspector General, to audit the FCC's financial statements. OIG contracted with the independent public accounting firm of KPMG LLP to perform the FCC's Fiscal Years 2014 consolidated financial statement audit. The contract requires that the audit be performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and the Office of Management and Budget Bulletin (OMB) 14-02, as amended and applicable sections of the U.S. Government Accountability Office (GAO)/President's Council on Integrity & Efficiency (PCIE) Financial Audit Manual. The audit is currently in progress, and it is expected that the audit opinion will be issued by November 14, 2014, to meet OMB's reporting deadline of November 17, 2014, and for inclusion in the FCC's 2014 Agency Financial Report (AFR).

Fiscal Year 2014 Federal Information Security Management Act Evaluation

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

OIGs are required to annually evaluate agency information security programs and practices. The evaluations must include testing of a representative subset of systems, and based on that testing, an assessment of the agency's compliance with FISMA and applicable requirements. The Office of Inspector General has contracted with KPMG to perform the FY 2014 evaluation and it is currently in progress.

OFFICE OF AUDIT

Audit of Public Safety and Homeland Security Bureau

The Office of Inspector General has contracted with an IPA firm to conduct an audit of the FCC's Public Safety and Homeland Security Bureau. The audit objectives include:

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

The audit work is in process and we expect the audit report to be issued during the next semiannual reporting period.

Audit of the Wireline Competition Bureau

OIG contracted with an IPA firm to conduct an audit of the FCC's Wireline Competition Bureau. Audit objectives include:

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

The audit is currently in progress and we expect the audit report to be issued during the next semiannual reporting period.

Audit of VRS Providers Relay Service Data Request Projections

OIG contracted with an IPA firm to conduct a performance audit of five Telecommunications Relay Service (TRS) providers offering Video Relay Service (VRS). The objectives of the audit are to determine:

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

The scope of the audit includes cost projections for program years 2008 through 2012. The draft audit reports are currently under OIG review and the final report is expected to be issued during the next reporting period.

Audit of FCC Civil Monetary Penalties

OIG contracted with an IPA firm to audit FCC management practices for initiating, tracking and collecting civil monetary penalties. The audit objectives included:

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

Audit field work is complete and the final audit report is expected to be issued during the next reporting period.

Universal Service Fund Oversight Division

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

OFFICE OF AUDIT

The **High Cost Program**, which is transitioning to the Connect America Fund, provides support to certain qualifying telecommunications carriers that serve high-cost areas, and offer rates and services to rural area consumers that are reasonably comparable to rates in urban areas. The Connect America Fund is designed to transition the program away from providing voice only telephone service to providing multi-purpose networks capable of offering broadband Internet access. Approved disbursements for 2013 were about \$4.17 billion.

The **Schools and Libraries Program**, also known as “E-Rate,” provides support to eligible schools and libraries in every U.S. state and territory for telecommunication services, Internet access, and internal connections. Approximately 32,000 eligible entities benefited in 2013, receiving approximately \$2.2 billion in approved disbursements, bringing Internet services to millions of students and library patrons.

The **Lifeline Program**, also known as Low Income, provides support to eligible telecommunications carriers that in turn offer discounts on telecommunications services to eligible consumers. Over 14 million low-income households throughout the nation benefited from 2013 program payments of approximately \$1.8 billion.

The **Rural Health Care Program** provides support to eligible rural health care providers - including mobile health centers, hospital pharmacies, and medical training institutions - for telecommunications services and broadband access. For 2013, over 3,600 health care providers in the Rural Health Care Program, along with over 3,800 Rural Health Care Pilot Program providers, received approximately \$159 million in support.

Contributors. OIG is also responsible for providing oversight of USF receipts collected from telecommunications providers of international and interstate telecommunications services referred to as contributors. Over 3,000 contributors submitted total contributions of approximately \$8.75 billion in 2013.

The USFD is organized into three operational teams, including:

- (1) High Cost (Connect America Fund),
- (2) Lifeline/Contributors, and
- (3) Schools and Libraries/Rural Health Care.

OFFICE OF AUDIT

OIG has formed a new High Cost audit team consisting of a director, an auditor and a mathematician who also works with other OIG units. The High Cost Team has reviewed FCC rules and regulations, prior OIG audits, and resources from the FCC, USAC and National Exchange Carriers Association (NECA) websites. The team held discussions with subject matter experts from various FCC Bureaus, USAC, and NECA to improve OIG's understanding of the program. The team has also completed several training sessions specific to the High Cost program and scheduled additional training in the subsequent reporting period.

The High Cost program is considered the most complex of the USF programs. Under the USF/ICC (Inter-carrier Compensation) Transformation Order issued in November 2011, and subsequent clarifying orders, the High Cost program is transitioning to support multi-purpose networks capable of broadband and voice, while phasing out support for voice-only networks. During this transition period, the program will consist of separate support mechanisms for the legacy High Cost program and the new Connect America Fund. One of our initial goals is to conduct a risk assessment of all aspects of the program to identify areas that warrant closer review. The team has already identified some program risk areas to consider for future audits. We also plan to contract with outside firms to perform audits in some of these risk areas. We expect that one or more of these proposed outsourced audits will be initiated during the next semiannual reporting period. In response to a recent request from the Wireline Competition Bureau, we are also conducting preliminary steps to review allegations of improper acts by a High Cost program beneficiary.

Completed Audits and Other Projects

Report on Lifeline Compliance for Budget PrePay, Inc.

On September 25, 2014, OIG issued a final audit report on Lifeline Compliance for Budget PrePay, Incorporated (the Company) (Audit Report No. 12-AUD-01-02, issued September 25, 2014). In addition, we conducted a limited review of the Company's FCC Form 499-A Telecommunications Reporting Worksheet to test the reasonableness of the revenues reported for USF contributions.

The audit reported two instances in which the Company did not comply with the FCC's Lifeline program rules. Specifically, the audit found the Company failed to properly identify administrative charges on its invoices, and inappropriately, automatically enrolled subscribers in toll limitation services. In addition, our limited review of the Company's contributions to the USF found the Company did not comply with the FCC's USF contribution rules. The Company misreported bad debt expenses on its 2011 and 2012 FCC Forms 499-A, Telecommunications Reporting Worksheets. The Company refiled its 2011 and 2012 FCC Forms 499-A after we initiated our audit and as a result, USAC determined that the Company owed an additional \$58,000 in USF contributions.

OFFICE OF AUDIT

Parker Unified School District

A performance audit of the Parker Unified School District (Audit Report No. 13-AUD-12-27, issued July 22, 2014) disclosed that the school district generally complied with the applicable FCC rules related to the E-rate program for funding year 2009. The audit also noted that the school's use of E-rate funds was efficient and effective. However, the audit disclosed an internal control deficiency related to Parker's discount calculation. Parker Unified School District agreed with the audit finding and proposed actions to implement the audit recommendations.

In-Process Audits and Other Projects

Low Income Audit of Mextel Corporation

We completed audit field work on the Low Income audit of Mextel Corporation and are preparing a draft audit report. The audit included limited tests of the Mextel's FCC Forms 499-A, Telecommunications Reporting Worksheet, to test the reasonableness of the revenues reported for USF contributions. We expect the final report to be completed by the next semiannual reporting period.

Audit of Hardy Cellular Telephone Company

We initiated a Contributor Compliance audit of Hardy Cellular Telephone Company. The audit will include limited tests on the Company's compliance with the FCC's Low Income program rules. We anticipate issuing a draft report during the next semiannual reporting period.

Data Analytics Project

In August 2014, OIG initiated a data analytics project that will analyze anomalies in increases in E-rate beneficiary discounts. This analysis will enable OIG to plan targeted audits or inspections to determine the validity of discounts. We expect to complete this project in the next semiannual reporting period.

OFFICE OF INVESTIGATION

OIG Office of Investigation (OI) covers a wide range of topics touching on myriad aspects of the FCC’s mission and programs. Most significantly, our investigations often address allegations of criminal misconduct or civil false claims. We deal with complex cybercrime investigations, large criminal conspiracies, and matters involving complex financial transactions throughout the United States and its territories. OI has relied upon its highly-trained staff and forensics capabilities. OIG is also grateful for all outside criminal investigative support we receive.

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

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

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

Activity During This Period

At the outset of this reporting period, 73 cases were pending. Over the last six months, 15 cases have been closed and 21 opened. As a consequence, a total of 79 cases are pending. These numbers do not include preliminary reviews of allegations, from the Hotline or other sources, or matters involving minimal analysis of the allegations or evidence.

Statistics

Cases pending as of April 1, 2014	73
New Cases	21
Cases Closed	15
Cases pending as of September 30, 2014	79

OFFICE OF INVESTIGATION

Significant Activities

Several of the Office's significant activities are described below. However, we discuss investigations only when and if information may be made public without negative impact on law enforcement activities, including criminal prosecutions, and without divulging investigative techniques. Thus, many matters could not be considered for inclusion in this summary.

Investigations into Fraud in the Federal Universal Service Program

The bulk of the work of OI involves investigating and supporting civil and criminal investigations/prosecutions of fraud in the FCC's federal universal service program. The AIGI and Investigations staff work routinely with other state, local and federal agencies in these matters. These coordinated investigatory and prosecutorial efforts, especially those involving the Department of Justice (DOJ), the Department of Education OIG and various U.S. Attorneys, have resulted in many successful 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. Following successful prosecutions from OI investigations, FCC's Enforcement Bureau (EB) initiated several suspension proceedings.

Highlighted below, are a few matters that have had public developments during the reporting period:

Civil Settlements and Criminal Prosecutions in the Lifeline Program

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

OFFICE OF INVESTIGATION

Associated Telecommunications Management Services

On April 9, 2014, a criminal indictment was returned against three individuals in federal court in Tampa, Florida for their alleged roles in engaging in a scheme to submit false claims related to the Low Income Program to USAC. Thomas E. Biddix, 44, of Melbourne, Florida, Kevin Brian Cox, 38, of Arlington, Tennessee, and Leonard I. Solt, 49, of Land O'Lakes, Florida, were charged with one count of conspiracy to commit wire fraud and 15 substantive counts of wire fraud, false claims and money laundering. The court also authorized a seizure warrant seeking the defendants' ill-gotten gains, including the contents of multiple bank accounts, a yacht and several luxury automobiles.

The indictment alleges that the defendants owned and operated Associated Telecommunications Management Services LLC (ATMS), a holding company that owned and operated multiple subsidiary telephone companies that participated in the Lifeline Program. Biddix, chairman of the board at ATMS, and Cox and Solt allegedly caused the submission of falsely inflated claims to the Lifeline Program between September 2009 and March 2011 that resulted in ATMS fraudulently receiving more than \$32 million.

The investigation was initiated by OI and subsequently referred to the DOJ and the FBI. Additionally, the Internal Revenue Service (IRS) - Criminal Investigation was involved in the investigation. OI continues to assist the DOJ and the FBI in the investigation. The case is scheduled for trial in the spring of 2015.

Icon Telecom, Inc.

On June 4, 2014, Wesley Yui Chew, of Edmond, Oklahoma, and sole owner of Icon Telecom, Inc. ("Icon"), also based in Edmond, and Oscar Enrique Perez-Zumaeta, of Cancun, Mexico, were charged in the Western District of Oklahoma with crimes involving more than \$25 million of fraudulent claims against the federal Lifeline Program. On June 12, Chew and Icon plead guilty to money laundering and making a false statement to the FCC. In September of 2011, Icon reported fewer than 2,200 wireless customers who qualified for the Lifeline program. By November 2012, that number had grown to 135,364. Although it had fewer than ten full-time employees, Icon received a total of \$58,283,329 through the Lifeline Program during 2011, 2012, and 2013.

Chew pled guilty to a money laundering charge for his transfer of over 20 million dollars on April 9, 2013, from an Icon account to a personal account. He admitted that when he made that transfer, he knew that Icon had tens of thousands fewer customers than it had reported to the FCC for the first three months of 2013. Chew also entered a guilty plea on behalf of Icon admitting that in response to a USAC audit request, Icon intentionally fabricated 58 customer recertification forms, which included fictitious signatures.

OFFICE OF INVESTIGATION

Chew and Icon also agreed that the United States will keep more than \$27 million seized during the investigation. In addition to the forfeiture, Chew faces up to 10 years in prison and a fine of \$250,000 or twice the amount of the criminally derived property involved in the transfer, whichever is greater. Icon faces a potential fine of \$500,000.

Perez-Zumaeta has been charged in a ten-count indictment, which includes allegations of wire fraud and conspiracy between Perez-Zumaeta, Chew and Icon to defraud USAC and the FCC of more than \$25 million. Perez-Aumeta is also charged with money laundering based on deposits of criminal proceeds into a bank account of a Perez-Zumaeta owned company, PSPS Sales.

If convicted, Perez-Zumaeta could be imprisoned for 20 years on each of the conspiracy and wire-fraud counts and 10 years on each of the money-laundering counts. He would also be subject to a fine of up to \$250,000 on each count, and mandatory restitution. Furthermore, the indictment seeks forfeiture of all proceeds of the alleged fraud and all property involved in the money-laundering transactions.

This case is the result of an investigation by OI, the United States Attorney's Office, Western District of Oklahoma, the FBI and the IRS-Criminal Investigation. OI continues to assist the DOJ and the FBI in the investigation.

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

On April 22, 2014 and May 28, 2014, respectively, Bryce Chapman and Samuel Hawk, previously indicted for defrauding the VRS Fund by participating in multiple and elaborate minute-pumping scheme, each pled guilty to one count of conspiracy to commit mail and wire fraud pursuant to 18 U.S.C. Section 1349.

Internal Affairs

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

During this reporting period, OI Internal Affairs Division, opened 11 cases and closed 9 cases.

OFFICE OF INVESTIGATION

FCC Employee Time and Attendance Fraud: Substantial Overtime

An employee was alleged to have committed time and attendance fraud including improperly claiming overtime pay, working fewer hours than their tour of duty required, and spending considerable time while on official duty selling personal products. According to the data reviewed by OI Internal Affairs, the employee failed to complete a full tour of duty 72 out of the 78 days or 92% of the time. In addition, forensic review of digital evidence did not substantiate the other claims of inappropriate activity while on official government time. The matter was referred to Bureau management for disciplinary action as deemed appropriate.

Office of Inspector General Hotline

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

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

- 1) Open an OIG investigation or audit;
- 2) refer the matter to FCC management for appropriate review and action; or
- 3) refer the allegation to another Federal agency. For example, complaints about fraudulent sweepstakes are referred to FTC, the nation's consumer protection agency.

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

During the current reporting period, OIG received 4,803 Hotline contacts. Of these;

- 1) 45 were referred to OI for possible case openings;
- 2) 259 were referred to FCC Consumer Center;
- 3) 372 were referred to other agencies including the FTC; and
- 4) 4,127 were determined to lack merit for referral or further investigation.

REPORTING REQUIREMENTS

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

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

Please refer to the sections of this report titled “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 section 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.

No significant recommendations remain outstanding.

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

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

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

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

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

Each audit report issued during the reporting period is listed according to subject matter and described in the “Office of Audit” section.

REPORTING REQUIREMENTS

7. A summary of each particularly significant report.

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

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

See Table 1 to this report.

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

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

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

No audit reports fall within this category.

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

No management decisions fall within this category.

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

Although OIG has not been given a formal decision, the hiring of criminal investigators remains an issue that we hope can be worked out. Further, the creation of a strike force, as detailed above, does hold some concerns.

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

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

TABLE 1

Status of Inspector General Reports with Questioned Costs	Number of Reports	Questioned/Unsupported Costs
A. No management decision has been made by the commencement of the reporting period.	3	\$2,478,134
B. Issued during the reporting period.	1	\$57,882
C. Management decision made during the reporting period.		
Value of disallowed costs.	1	\$57,882
Value of costs not disallowed.		
D. Management decision not made by the end of the reporting period.	3	\$2,478,134
E. Management decision made within six months of issuance.	1	\$57,882

APPENDIX

Results of Peer Reviews

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

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

Peer Review of FCC OIG Audit

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

Peer Review of Federal Housing Finance Agency (FHFA) OIG

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

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Federal Communications Commission
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Report fraud, waste or abuse to:

Email: Hotline@FCC.gov

Call Hotline: 202-418-0473

888-863-2244