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**Federal Communications Commission  
Office of Inspector General**



**Semiannual Report to Congress  
April 1, 2015—September 30, 2015**

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**THE FEDERAL COMMUNICATIONS COMMISSION**



**Left to Right:**

**Commissioner Ajit Pai, Commissioner Mignon Clyburn,  
Chairman Tom Wheeler,  
Commissioner Jessica Rosenworcel, Commissioner Michael O’Rielly**

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## COVER MEMORANDUM

**DATE:** September 30, 2015

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

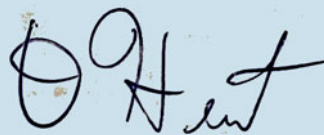
**FROM:** Inspector General

**SUBJECT:** Semiannual Report to Congress

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

This report describes both audits and investigations that have been completed during the preceding six months, as well as those in process. Where appropriate, reports of completed audits and investigations have been forwarded to the Commission's management for action.

This office remains committed to maintaining the highest possible standards of professionalism and quality in its audits, investigations, inspections and consultations. We welcome any comments, suggestions or questions you may have.



**David L. Hunt**  
**Inspector General**

Enclosure

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## INTRODUCTION

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

The Federal Communications Commission is composed of five (5) members who are appointed by the president 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. Tom Wheeler currently serves as the Chairman. Mignon Clyburn, Jessica Rosenworcel, Ajit Pai and Michael O'Rielly currently serve as Commissioners. Most of the FCC's employees are located in Washington, D.C. at 445 12th St., S.W. Field offices and resident agents are located throughout the United States.

The Office of Inspector General (OIG) is dedicated to ensuring compliance with the requirements of the Inspector General Act of 1978, 5 U.S.C.A. App. as amended (IG Act) and to assisting the Commission in its continuing efforts to improve operational and program effectiveness and efficiency. Management matters are coordinated with the Chairman's office. In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Inspector General (IG), David L. Hunt, reports directly to the full Commission. The principal assistants to the Inspector General are Assistant Inspectors General (AIG) and they are:

**Robert McGriff, AIG for Audit**

**Jay C. Keithley, AIG for Investigation and Counsel to the IG**

**Harold F. Shrewsberry, AIG for Management**

In this semiannual report, we discuss both the major accomplishments and activities of OIG from April 1, 2015 through September 30, 2015, as well as its goals and future plans.

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## OFFICE OF MANAGEMENT

### **Office Staffing**

Currently, OIG is staffed with 41 Full Time Equivalent (FTE) professional staff. In our continuing effort to fully staff the office we recently initiated hiring actions for two investigative analysts, two attorney investigators and one records manager. There are several other hiring actions necessary to fully staff the office up to the level of our Fiscal Year 2016 budget request. We appreciate the support from Congress in meeting our staffing needs. This additional staff provides us with the ability to enhance our oversight mission and further our mandate to address and reduce fraud, waste and abuse in FCC programs and operations.

Our staff consists of highly educated certificate holding experienced professionals. Training and education is at the forefront of our mission objectives and goals to ensure we continue increasing the expertise of all staff, and satisfy the training requirements mandated by various professional organizations while meeting stringent educational and training requirements demanded of auditors, attorneys, investigators and administrative staff.

In an on-going effort to efficiently use our training and travel funds, and increase training quality, we often do in-house training sessions that are conducted on site. This training methodology provides teams the opportunity to train using real work assignments. This program enables us to tailor training to our specific needs. When training slots are available we offer classes to non-OIG FCC personnel.

OIG outsources some of our acquisition requirements to the Department of Interior (DOI) in lieu of using agency procurement services. This provides OIG a higher level of independence when contracting for some of our audit and investigation outsourced requirements. We plan to continue with this successful procurement strategy.

OIG submitted its Fiscal Year 2017 budget at the same funding level as the FY 2016 request.

### **Internship Program**

We recruit candidates for our internship program from all over the country. The office capitalizes on the strengths they bring into the workforce. Our internship program is designed to provide interns with the opportunity to take on challenging tasks and projects, greatly assisting our staff in completing assignments. Our goal is for interns to leave with a good understanding of how a government agency operates. In return, they are rewarded with the experience of working as a public servant. This is a very successful program and we shall continue our internship program well into the future.

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## OFFICE OF MANAGEMENT

### 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.

During the reporting period, the IG and OIG staff participated in several meetings and delivered responses to Congressional inquiries on a variety of topics, and reviewed legislation to determine the impact on the agency and OIG. The FCC's recent Net Neutrality rules (adopted by the Commission on February 26, 2015 and published in the Federal Register on April 13, 2015) generated several discussions with many parties in Congress, including joint meetings with Republican and Democratic staffs of the House Oversight and Government Reform (HOCR) Committee.

In addition to our semiannual report to Congress two (2) members of Congress requested semiannual reports regarding open and closed investigations and audit results. During this reporting period, we also responded to a request from the HOCR Committee for similar information. This is in addition to our other reporting requirements. We consider this as part of our ongoing exchange of information with Congress regarding open and closed investigations and audit results.

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## 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 installed a Network Attached Storage (NAS) device in the FCC data center that performs real-time backup of OIG data, as an addition to the FCC network backup function. We also installed a NAS device in the Gettysburg data center where OIG data is backed up daily at this remote location providing OIG two additional layers of data backup.

The FCC recently relocated its data center to West Virginia and moved to Microsoft Office 365 and OneDrive for business. This increases OIG staff's ability to access data remotely and promotes efficient file-sharing. The next phase is to move into a cloud operating environment.

We are currently working with IT on an OIG-segregated cloud solution within the FCC cloud to further increase our independence and data security. Work is in process to store all emails using multiple formats to enhance our ability to access data.

#### OIG Electronic Records Management

OIG is aggressively implementing our electronic records management system, Alfresco. This system allows the OIG's records manager to electronically ship electronic records to the National Archives and Records Administration (NARA) for records retention. Alfresco has the capability to input our NARA approved records retention schedule. This gives our records manager the ability to establish our records retention schedule right in the system that also provides alerts when there is a requirement to disposition a record. We anticipate the system, which will effectively eliminate the requirement for paper documents and off-site storage of OIG records, to be fully functional by November 2015.

#### Office Space

OIG is now consolidated in one location on the 2nd floor at FCC headquarters. During this reporting period, by eliminating over two tons of documents, books, records and other outdated paper documents, we were able to more efficiently utilize our allocated space.



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## OFFICE OF AUDIT

Under the authority of the IG Act, as amended, the Office of Inspector General (OIG) Office of Audit (OA) conducts independent and objective audits, inspections and related activities designed to promote economy, effectiveness and efficiency in Federal Communications Commission (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).

Provide below are highlights of the work conducted by the OA during the current semiannual reporting period.

### **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 (IPERIA) compliance audit. As necessary, we contract for audit services with Independent Public Accountants (IPA) firms.

### **Completed Audits and Other Projects**

FCC Compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012

OA contracted with an IPA firm for an audit of the FCC's compliance with IPERIA for Fiscal Year 2014. The audit found that management generally complied with IPERIA, but identified two findings and five recommendations for improvement regarding the existing quality control review process and classification of recaptured overpayments. Management generally agreed with the findings and recommendations and stated that steps are being taken to address each of the auditor's findings and recommendations.

Audit of the Wireline Competition Bureau

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

1. evaluating the economy, efficiency, and effectiveness of the Bureau in accomplishing its assigned mission;

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## OFFICE OF AUDIT

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 auditors concluded that WCB complied with applicable FCC directives, policies, and procedures and effectively accomplished its assigned mission, and laws and regulations applicable to its operations, including substantial compliance with Office of Management and Budget (OMB) Circular A-123 *Management's Responsibility for Internal Control*. However, some matters related to the effectiveness and efficiency of the WCB's performance need improvement. Specifically, the following conditions were identified:

1. Bureau-specific risk assessments should be more comprehensive in order to mitigate the risks associated with Federal programs and operations;
2. WCB could benefit from documenting additional Bureau-specific internal control activities;
3. the Bureau needs to respond to the Universal Service Administrative Company's (USAC) requests for guidance; and
4. WCB has not addressed pending USAC audit appeals.

FCC Management concurred with all of the audit findings and the accompanying recommendations. WCB Management is to begin implementing the recommendations.

### Assessment of FCC Electronic Mail Security

OA contracted with an independent cyber security firm to perform an assessment of FCC's Electronic Mail Security. The objectives of the assessment included:

1. assessing the adequacy and the effectiveness of the controls over the electronic mail environment at FCC;
2. determining the adequacy of and compliance with the FCC's email-related directives, policies, and procedures;
3. determining the Commission's compliance with the National Institute of Standards and Technology (NIST) guidance regarding management and security for electronic mail; and

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## OFFICE OF AUDIT

4. determining the Commission's compliance with the National Archives and Records Administration (NARA) guidance regarding Electronic Records Management, as it pertains to electronic mail.

The assessment report identified 33 findings and 33 accompanying recommendations. Management concurred with 19 of the 33 findings, and did not concur with 14. As a response to the final report, management provided additional information to address the 14 findings with which it did not concur. OIG will evaluate the sufficiency of the information through the audit follow-up process. The assessment report is not available to the public due to the sensitive nature of the information contained in this report, it has been marked "Controlled Unclassified Information, Critical Infrastructure."

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

#### Audit of the FCC Fiscal Year 2015 Consolidated Financial Statements

OA contracted with an IPA firm to audit the FCC's financial statements as mandated by the Chief Financial Officers Act of 1990 (CFO Act), as amended. The audit is being conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, Office of Management and Budget (OMB) Bulletin 15-02, as amended, and applicable sections of the U.S. Government Accountability Office (GAO)/President's Council on Integrity & Efficiency (PCIE) Financial Audit Manual.

We will issue the Financial Statement Audit Report by November 15<sup>th</sup> to meet OMB's reporting deadline and for inclusion in the Agency's 2015 Agency Financial Report (AFR).

#### Fiscal Year 2014 Federal Information Security Management Act Evaluation

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.

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## OFFICE OF AUDIT

FISMA requires OIG's 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 is reported. OA contracted with an IPA firm to perform the FY 2015 evaluation.

The evaluation is almost complete. OA will issue the FISMA Evaluation report during the next semiannual reporting period.

### Inspection of Parking Management Services

OA is conducting an inspection of the FCC's contract for Parking Management Services. The inspection objective is to ensure that the contractor is performing tasks related to the remittance of funds in compliance with contract provisions. The scope of the inspection includes funds remitted April 1, 2011 through September 30, 2015.

The inspection field work is in process and we expect to issue the inspection report during the next semiannual reporting period.

### **Universal Service Fund Oversight Division**

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

The USFD is organized into three operational teams including:

1. High Cost;
2. Lifeline/Contributors; and
3. Schools and Libraries/Rural Health Care.

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## OFFICE OF AUDIT

The **High Cost Program**, which is transitioning to the Connect America Fund (CAF), 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 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. The size of the CAF, including legacy High Cost Program support, is frozen at \$4.5 billion.

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

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

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

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

### In-Process Audits and Other Projects

#### Audit of High Cost Transformation Order

In November 2011, the FCC released the USF/ICC Transformation Order & FNPRM (FCC 11-161), reforming the High Cost Program by phasing out existing mechanisms, eliminating identical support, and introducing the Connect America Fund, including an explicit Intercarrier Compensation (ICC) Recovery mechanism.

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## OFFICE OF AUDIT

OA contracted with an IPA firm to conduct an audit of the FCC's implementation of the High Cost Transformation Order. The audit objectives are:

1. prepare a list of the mandates required by the Transformation Order;
2. determine which entity is responsible for implementing each mandate;
3. identify the significant mandates and assess whether they are being implemented in accordance with FCC rules; and
4. determine whether the implementation could be improved better to protect the fund from fraud, waste and abuse.

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

### Audit of Phase 1 of the Connect America Fund (CAF)

OA contracted with an IPA firm to conduct a High Cost performance audit of Phase I of the CAF. Phase 1 of the CAF provides incremental support of approximately \$300 million to price-cap carriers for providing broadband service to customers in areas lacking basic Internet access. The audit objectives are:

1. determine the effectiveness of the controls established by the FCC and USAC to ensure disbursement of CAF funds are made for eligible purposes and in the correct amounts;
2. test a sample of CAF incremental support disbursements to the 72 carriers to provide reasonable assurance that the carrier(s) will provide the broadband service as committed; and
3. identify any improvements to the controls needed to protect the fund from fraud, waste and abuse.

The audit is announced with field work starting in the next reporting period.

### Audit of Allegations of Improper Acts by a High Cost Beneficiary

OA is performing an audit to examine allegations of improper acts by a High Cost program beneficiary. The objectives are:

1. determine the appropriateness of the beneficiary's allocation of corporate expenses among its regulated and non-regulated business segments; and
2. whether the beneficiary's related party transactions violated rules, resulting in higher cost reimbursements by the USF, or were otherwise improper.

The audit is in process and we expect to issue the audit report during the next reporting period.

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## OFFICE OF AUDIT

### Audit of School District, Library System and Rural Health Care Provider

OA contracted with an IPA firm to conduct performance audits of three program beneficiaries- Amarillo Independent School District, Amarillo, Texas; Orange County Library System, Orlando, Florida; and Kanakanak Hospital, Dillingham, Alaska.

The objectives of the audits are:

1. determine if USF beneficiaries complied with FCC rules, 47 C.F.R. Part 54.500 to 54.680, et. Seq., and all applicable orders issued under Section 254 of the Communications Act of 1934, as amended; and
2. the beneficiaries have adequate and effective controls to ensure USF funds are safeguarded and used for the intended purposes.

Fieldwork is complete and we expect to issue all three audit reports during the next reporting period.

### Schools and Libraries Data Analytics Project

Using data analytics tools, we developed methodologies to identify beneficiaries with the highest risk. In the next phase of the project, we plan to expand on this methodology by using data analytic software to perform targeted audits or inspections to determine the validity of discounts claimed by high risk beneficiaries. Then we will select potential audit candidates from the resulting outlier group. Using this new method OA will improve on its probability of detecting any fraud, waste, and abuse or program noncompliance. OAs immediate plan is to continue using this data analytics for inspecting E-rate beneficiary discounts. The inspection scope is to include schools and libraries program data from the period 2004 through 2014.

### Lifeline Audit of Assist Wireless, LLC

OA initiated an audit of Assist Wireless, LLC. The objectives of the audit are:

1. Determine the accuracy of the information reported on the FCC Form 497 that was used to calculate Lifeline support, and
2. the Company's compliance with 47 C.F.R. Sections 54.400 to 54.418, et. Seq. The audit will also include testing of the Company's FCC Form 499-A, Telecommunication Reporting Worksheet.

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## OFFICE OF AUDIT

We started our audit fieldwork and expect to issue the audit report during the next semiannual reporting period.

### Lifeline Audit of Mextel Corporation (dba Lifetel)

OA is performing an audit of Mextel Corporation (doing business as Lifetel). The objective of our audit is to determine the accuracy of the information reported on selected FCC Forms 497 (Lifeline and Link Up Worksheets) submitted by the Company during the 12-month period ended June 2011. We also conducted tests of the Company's 2011 and 2012 FCC Forms 499-A (Telecommunications Reporting Worksheet) to determine the accuracy of the revenues reported for USF contributions.

We received management responses from Mextel, USAC and FCC Bureaus. The audit report was updated based on those comments. We expect to issue the final audit report during the next semiannual reporting period.

### Lifeline Audit of Nexus Communications, Inc.

OA contracted with an IPA firm to conduct a performance audit of Nexus Communications, Incorporated. The objectives of the audit are to determine if Nexus Communications, Inc.:

1. complied with Title 47 of the Code of Federal Regulations, 47 C.F.R. § 54.400 to 54.422 and related orders regarding the Lifeline program; and
2. implemented adequate and effective controls to ensure USF funds are safeguarded and used for the intended purposes. The scope of the audit will include FCC Forms 497 submitted to USAC for the 12-month period ending June 30, 2015.

We expect to complete the audit fieldwork during the next semiannual reporting period.

### Contributor Audit of Hardy Cellular Telephone Company

OA is performing an audit of Hardy Cellular Telephone Company. The objective of the audit is to determine the accuracy of revenues and other information reported on the company's FCC Form 499A, which is used to calculate contributions to the universal service support mechanisms. The audit included tests of Hardy's FCC Form 497 submitted to USAC for reimbursement of Lifeline related expenses.

The audit fieldwork is complete. We expect to issue the final audit report during the next semiannual reporting period.



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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 false claims. We deal with complex cybercrime investigations, large criminal conspiracies, and matters involving complex financial transactions throughout the United States and its territories. These difficult and wide-ranging cases often require substantial investigative expertise and resources including personnel on the ground across several states, or high-grade forensic tools and the expertise to use them. In these cases, we have always received, and are grateful for, the assistance of other agencies, especially the Offices of Inspector General of other federal agencies, the Department of Justice (DOJ) and the Federal Bureau of Investigation (FBI).

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

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

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## OFFICE OF INVESTIGATION

### Activity During This Period

At the outset of this reporting period, 87 cases were pending. Over the last six months, 12 cases have been closed and 21 opened. As a consequence, a total of 96 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, 2015	87
New Cases	21
Cases Closed	12
Cases pending as of September 30, 2015	96

### 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 bulk of the work of OI involves investigating and supporting civil and criminal investigations/prosecutions of fraud in the FCC's federal universal service programs. The AIGI and Investigations staff work routinely with other state, local and federal agencies on these matters. These coordinated investigatory and prosecutorial efforts, especially those involving the DOJ, the Department of Education and its OIG, and various U.S. Attorneys, have resulted in many successes, including civil settlements and criminal convictions.

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## OFFICE OF INVESTIGATION

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 handling multiple, ongoing, large-scale investigations involving the E-rate and Lifeline Programs that we hope to share in the near future. Following successful prosecutions from OI investigations, FCC's Enforcement Bureau (EB) initiated several suspension proceedings. Significant rule violations that don't support criminal or civil fraud prosecutions are also referred to EB.

### Varnett Public School

OIG provided support to an investigation conducted by the FBI, IRS-CI and the U.S. Department of Education that led to a 19-count indictment returned by a federal grand jury in Houston, Texas, in July, 2015, against the superintendent of the Varnett Public School and her husband, alleging conspiracy, mail fraud, tax evasion and obstruction of justice. Annette Cluff was the founding superintendent of the Varnett Public School and her husband Alsie Cluff, Jr. was the facilities and operations manager of the three Houston-area charter school campuses. The indictment alleges the couple embezzled in excess of \$2.6 million in funds intended for the operation and function of the charter school and its programs. Trial is currently set for March, 2016.

### Crockett County Public Schools /Ashley Jordan

OIG provided support to the Tennessee Comptroller of the Treasury that ultimately led to a three-count indictment returned by a Tennessee state grand jury in July, 2015, against a former Crockett County School System Technology Director, Ashley Jordan. The indictment alleges official misconduct, theft over \$10,000 and tampering with evidence.

During the course of the investigation by the Tennessee Bureau of Investigation and the Tennessee Comptroller of the Treasury, agents established that Jordan funneled business to an E-rate vendor and produced false invoices. The Tennessee Comptroller of the Treasury's September, 2015, report concluded that Jordan received between \$35,000 and \$40,000 in kickbacks in exchange for steering more than \$1 million in school technology business to Integrated Computer Solutions and Technology Associates. The report also found \$1,089,820 of questionable E-rate funding.

Mr. Jordan admitted to investigators that he received kickbacks, falsified bids and invoices, and stole from the Crockett County Schools.

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## OFFICE OF INVESTIGATION

### Associated Telecommunications Management Services

OIG continues to assist the DOJ and the FBI in the Lifeline-related investigation of Associated Telecommunications Management Services (ATMS) in connection with an indictment returned against three individuals: Thomas E. Biddix, of Melbourne, Florida; Kevin Brian Cox, of Arlington, Tennessee; and Leonard I. Solt, of Land O'Lakes, Florida. The indictment was returned in federal district court in Tampa, FL, on April 9, 2014. The defendants are 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 automobiles.

The indictment alleges that the defendants owned and operated ATMS, a holding company that owned and operated multiple subsidiary telephone companies that participated in the Lifeline Program and fraudulently received in excess of \$32 million dollars. The trial, initially scheduled for spring, 2015, has been postponed to January, 2016.

### Icon Telecom Inc.

On April 2, 2015, Wesley Yui Chew, sole owner of Icon Telecom, Inc., based in Edmund, Oklahoma, and Oscar Enrique Perez-Zumaeta of Cancun, Mexico, owner of PSP Sales LLC, who previously pled guilty to charges related to their participation in a scheme involving more than \$25 million of fraudulent claims against the Lifeline Program (as described fully in the FCC OIG SAR 41/2014-9/30/2014) were sentenced to prison by United States District Judge Tim DeGiusti in the United States District Court for the Western District of Oklahoma. Chew was ordered to serve 48 months in federal prison, followed by three years of supervised release, and fined \$117,166.48 (which is the anticipated cost of his federal imprisonment). Chew's company, Icon Telecom, was sentenced to three years of probation. Chew and Icon agreed not to contest the forfeiture of more than \$27 million seized during the investigation. Zumaeta was ordered to serve 42 months in prison. He has been in federal custody since April 25, 2014.

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## OFFICE OF INVESTIGATION

### False Claims Act

On July 1, 2015, in *United States ex.rel. Todd Heath v. Wisconsin Bell, Inc.*, the United States District Court, Eastern District of Wisconsin, No. 08-CV-0724 (July 1, 2015) in denying the defendant's motion to dismiss, held that USF Funds are subject to the Federal False Claims Act (FCA). The judge ruled that, despite the fact that USF monies, in this case, e-rate monies, are held in a private fund and administered by a private company, they are nevertheless *provided* by the government pursuant to the terms of the FCA. This case rejects previous holdings that USF funds and Telecommunications Relay Services funds are not federal funds subject to the FCA and sets the stage for future battles within the various judicial circuits.

### 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 6 cases.

#### FCC Employee: Inappropriate Use of Government Equipment

OIG received allegations that an employee was using his FCC-issued computer to view pornography. OIG conducted a forensic examination of the employee's computer, Outlook mailbox, and network share drive. During the forensic examination, the computer forensics investigator identified pornographic images stored on the network share and evidence that the employee used his FCC-issued computer to search for and view pornographic material on the Internet. The matter was referred to Bureau management for disciplinary action as deemed appropriate.

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## OFFICE OF INVESTIGATION

### 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 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 Federal Trade Commission (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](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.

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

During the current reporting period, OIG received:

1. 9,133 Hotline contacts. Of these, 109 were referred to OIG for possible case openings;
2. 187 were referred to FCC Consumer Center or other FCC Bureaus; and
3. 404 were referred to other agencies including the FTC.

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## REPORTING REQUIREMENTS

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

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

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

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

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

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

*No significant recommendations remain outstanding.*

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

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

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

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

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## REPORTING REQUIREMENTS

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

*Each audit report issued during the reporting period is listed according to subject matter and described in the audit section of this report. We did not report any questioned costs this semiannual reporting period. See Table 1 for the status of questioned costs reported in the current and prior periods.*

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.*



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## REPORTING REQUIREMENTS

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

*No management decisions fall within this category.*

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

*No management decisions fall within this category.*

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

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

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**TABLE 1**

<b>OIG Reports With Questioned Costs</b>		
<b>Status of Inspector General Reports with Questioned Costs</b>	<b>Number of Reports</b>	<b>Questioned/ Unsupported Costs</b>
A. No management decision has been made by the commencement of the reporting period.	4	\$3,834,814
B. Issued during the reporting period.		
C. Management decision made during the reporting period.		
Value of disallowed costs.		
Value of costs not disallowed.		
D. Management decision not made by the end of the reporting period.	4	\$3,834,814
E. Management decision made within six months of issuance.	1	\$57,882

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## APPENDIX

### Results of Peer Reviews

Peer reviews of an OIG's audit organization's system of quality control are conducted 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. Peer reviews are conducted on a three-year cycle.

OIG completed a peer review of the Nuclear Regulatory Commission (NRC) OIG during the reporting period. The most recent peer review of OIG performed by another OIG organization was completed in a prior semiannual reporting period. Information regarding peer review activities during the current and prior period is discussed below.

#### Peer Review of Nuclear Regulatory Commission OIG

OIG conducted an external peer review of the NRC OIG during this reporting period. OIG issued its peer review report on the NRC OIG audit organization's system of quality control on September 17, 2015. OIG concluded that NRC OIG's system of quality control provides reasonable assurance of performing and reporting audits in conformity with applicable professional standards in all material respects. NRC OIG received a peer review rating of pass.

#### Peer Review of FCC OIG Office of Audit

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

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**Office of Inspector General  
Federal Communications Commission  
445 12th Street S.W. Room 2-C762  
Washington, D.C. 20554**



**Report fraud, waste, and abuse to:  
Email: [Hotline@FCC.gov](mailto:Hotline@FCC.gov)  
Call Hotline: 202-418-0472**