

**Federal Communications Commission  
Office of Inspector General**



**Semiannual Report to Congress  
April 1, 2016—September 30, 2016**

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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:** November 17, 2016

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

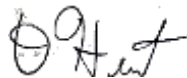
**FROM:** Inspector General

**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, 2016. In accordance with Section 5(b) of that Act, it would be appreciated if this report, along with any associated report that you may prepare, be forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

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

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



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

Enclosure

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## INTRODUCTION

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

The Federal Communications Commission is composed of five (5) members who are appointed by the president and subject to confirmation by the Senate. Normally, one Commissioner is appointed or reappointed each year, for a term of five (5) years. One of the members of the Commission is designated by the President to serve as Chairman, or chief executive officer, of the Commission. 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 Investigations and Counsel**

**Stephen Ebner, AIG for Management**

In this semiannual report, we discuss both the major accomplishments and activities of OIG from April 1, 2016 through September 30, 2016, as well as its goals and future plans.

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## OFFICE OF MANAGEMENT

### **Office Staffing**

Currently our office consists of 43 highly-educated, experienced professional and administrative staff including 18 auditors and 16 investigators. We are in the process of adding two staff auditors, an additional para-legal and a data-mining specialist to the staff.

Training and education are two of our more important mission objectives to ensure we continue increasing the expertise of all staff and to satisfy the training requirements mandated by various professional organizations.

### **Internship Program**

Periodically, we provide internships to qualified applicants 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 projects, while 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. Several of our interns have gone on to take positions in the Department of Justice (DOJ) including the Federal Bureau of Investigations (FBI).

### **Legislative and Policy Matters**

Pursuant to section 4(a)(2) of the IG Act, OIG monitors and reviews existing and proposed legislation and regulatory proposals for their potential impact on OIG and the FCC's programs and operations. We perform this activity to evaluate legislative potential for encouraging economy and efficiency, while helping to reduce fraud, waste, abuse, and mismanagement.

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 Net Neutrality rules (adopted by the Commission on February 26, 2015 and published in the Federal Register on April 13, 2015) continued to

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generate interest in both the House of Representatives and the Senate and have been the subject of discussions between OIG and various congressional committees as we investigated issues regarding possible improper influence related to the adoption of the rules. Additionally, OIG continued to update Republican and Democratic staff of the Senate Committee on Commerce, Science and Transportation on our progress on an investigation involving possible improper disclosure of non-public information, commenced in response to concerns first raised by Senator Thune, Chairman of the Commerce Committee. Both of these investigations were completed during this reporting period. *See infra* pp. 17-20.

Further, during the reporting period, we shared a series of recommendations to prevent fraud in the Lifeline program with Congressional committee staff at numerous briefings. *See infra* pp. 14-15.

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

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## OFFICE OF AUDIT

Under the authority of the IG Act, as amended, the Office of Audit (OA) conducts or contracts for the performance of independent and objective audits, inspections 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, including Council of Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspections and Evaluations, and Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book.

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

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

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

OFID conducts audits, inspections, evaluations, and other projects designed to promote economy and efficiency in FCC operations and to prevent and detect fraud, waste and abuse. Mandatory projects include the Annual Financial Statement audit, the Federal Information Security Management Act (FISMA) evaluation, and the Improper Payments Elimination and Recovery Act compliance audit. As necessary, we contract for audit services with Independent Public Accounting (IPA) firms.

During the reporting period OFID completed one mandatory audit. Additionally, two mandatory and five discretionary projects are in process and will be summarized in a future reporting period.



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### **Completed Mandatory Audit**

FCC Compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012 (Report no. 15-AUD-12-12)

OA contracted with an IPA firm to perform an audit to determine whether the FCC complied with the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) for Fiscal Year 2015. The audit found that management was non-compliant with IPERIA. The audit report, issued on July 12, 2016, identified three findings and made five recommendations for improvement in management's quality control review process, reporting of improper overpayments, and implementation of an effective payment quality assurance plan. Management did not concur with the findings and recommendations but stated they look forward to updating the OIG on progress made toward improving their processes going forward.

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

OFID had seven projects in process, two mandatory and five discretionary, at the conclusion of this semiannual reporting period.

FCC FY 2016 Financial Statement Audit (Project no. 16-AUD-06-04).

FY 2016 FISMA Evaluation (Project no. 16-EVAL-06-01).

Inspection of FCC's Readiness for Implementation of the Data Act of 2014 (Project no. 16-INSP-11-01).

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

FCC Website Security Follow-up Assessment (Project no. 16-EVAL-12-06).

FCC Parking Management Services Inspection (Project no. 15-INSP-10-01).

FCC Charge Card Program Inspection (Project no. 15-INSP-09-02).

Draft reports have been issued for two of the projects— the FCC Parking Management Services Inspection and the FCC Charge Card Program Inspection.

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## **Universal Service Fund Oversight Division**

USFD conducts audits, evaluations, and inspections of Universal Service Fund (USF) program service providers and beneficiaries designed to prevent and detect fraud, waste, and abuse. Those oversight activities and related initiatives help promote economy, effectiveness, and efficiency of the 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 focusing on:

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

The **High Cost Program**, which is transitioning to the Connect America Fund (CAF), provides support to certain qualifying telecommunications carriers serving high-cost areas and offering services to rural area consumers at rates 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. Funding for the CAF, including legacy High Cost Program support, is statutorily 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 43,000 eligible entities benefited in 2015, receiving approximately \$2.08 billion in approved disbursements, bringing Internet services to millions of students and library patrons. Two major E-rate 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** 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 2015 program payments of

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approximately \$1.5 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 2015, health care providers in the Rural Health Care Program received over \$278 million in support, and over 2600 health care providers benefited from the program.

**Contributors.** OA is also responsible for providing oversight and ensuring the accuracy of USF receipts collected from telecommunications providers offering international and interstate telecommunications services. Those telecommunications providers are collectively referred to as Contributors. Over 3,100 contributors submitted total contributions of approximately \$8.64 billion in 2015.

The USFD completed one audit during the reporting period and recommended recovery of \$62,304 of USF funds. In addition, nine audits and other projects are in process.

### **Completed Audits**

Audit of Orange County Library System (Report no. 15-AUD-07-07).

OA contracted with an IPA firm to conduct a performance audit of Orange County Library System, Orlando, Florida. The objective of the audit was to determine if: 1) USF beneficiaries complied with FCC rules, 47 C.F.R. Part 54.500 to 54.523 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. The audit report was issued on April 27, 2016.

The auditors found that although the Library generally complied with the FCC E-rate Program rules during funding years 2010 and 2011, it did not retain certain documentation required by 47 C.F.R. §54.516(a)(1) and its Internet safety policy addressed only two out of the five required elements required by 47 C.F.R. §54.520(c)(2)(ii). The audit report recommended the Library maintain all pertinent documentation, and revise its Internet safety policy to include all five

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required components. The report also recommended recovery of \$62,304 of Schools and Libraries program funds.

**In-Process Audits and Other Projects**

Audit of High Cost Transformation Order (Project no. 15-AUD-04-04).

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

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

Performance Audit of a High Cost Program Beneficiary  
(Project no. 15-AUD-02-01).

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

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

Audit of Hardy Cellular Telephone Co. (Contributor) (Project no. 14-AUD-08-02).

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

OA issued draft reports for two projects– the Lifeline Program Audit of Nexus Communications Incorporated, and Contributor Audit of Hardy Cellular Telephone Co. Additionally, we suspended one audit– the Lifeline Audit of Assist Wireless, LLC (Project no. 15-AUD-03-02) and reallocated our resources to higher priority audits.

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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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### **Activity During This Period**

At the outset of this reporting period, 89 cases were pending. Over the last six months, 12 cases have been closed and 8 opened. As a consequence, a total of 85 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, 2016 = 89

New Cases = 8

Cases Closed = 12

Cases pending as of September 30, 2016 = 85

### **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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Most of our on-going universal service investigations are not known to the public and even some closed investigations cannot be disclosed because of sensitivities that could impact related ongoing matters. Specifically, the OI is engaged in multiple, ongoing, large-scale investigations involving the E-rate and Lifeline Programs as well as Qui Tams under seal, seeking damages pursuant to the Federal False Claims Act. We hope to share details about these matters in the near future. Highlighted below are a few matters that have had public developments during the reporting period:

### **Lifeline Investigations**

On February 2015, a grand jury in the United States District Court for the Eastern District of Arkansas indicted two Lifeline sales agents on wire fraud charges for intentionally activating Lifeline phones for non-existent or phantom customers. The charges arose from the activities of Johnny Edward Walker and Cody Joe Morris from in or around December 2012 to April 2013. Walker operated TDE Industries, a company that contracted with a Lifeline provider to distribute free cell phones to eligible persons. Cody worked for TDE Industries as a sales agent. The indictment alleged that on multiple occasions, Walker and Cody intentionally activated Lifeline phones for phantom customers. The phantom customers were processed by the Lifeline provider for reimbursement from the Lifeline Program. The provider, in turn, paid a \$15 commission to Walker for each new customer he submitted for enrollment. Walker then paid \$7 to the sales agent who entered the information required to activate the phantom customer's account.

On March 14, 2016, Morris pled guilty to a charge of conspiracy to commit wire fraud. Walker's trial is scheduled to proceed in April 2017.

### **Lifeline Team Recommendations**

During this reporting period, OI's Lifeline Investigations team continued its work on ongoing investigations of Lifeline carriers, opening new investigations, and assisting the Justice Department and United States Attorney Offices around the country to pursue civil and criminal fraud cases in the Lifeline program.

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Additionally, the team developed, and shared with USAC, a series of algorithms that, when applied to data sets obtained from Lifeline carriers, identify subscribers for which the carrier obtained duplicative support, even where a subscriber's personal information was manipulated to avoid duplicate detection. These same algorithms, when applied to the National Lifeline Accountability Database (NLAD) data, can also be used to generate reports which demonstrate Lifeline field agents' repeated attempts to submit Lifeline applicants' personal information manipulated to evade NLAD's duplicate blocking algorithms.

Between May and August 2016, the Lifeline Investigations team provided a series of recommendations to prevent fraud in the Lifeline program to Commission and USAC staff. These recommendations were also shared with Congressional committee staff at numerous briefings, including those with the Republican staff of the Senate Judiciary Committee, Republican and Democratic staff of the Senate Commerce, Science & Transportation Committee and Republican and Democratic staff of the House Committee on Energy and Commerce. OI developed these recommendations based on trends observed in conducting investigations of Lifeline carriers, and they incorporate and propose to build upon the algorithms OI has developed.

Among others, the recommendations include, (1) suggestions to enhance sales agent accountability, by requiring agents to register and provide identifying information prior to accessing NLAD (and any successor database), thereby enabling the tracking of each sales agent's submissions to NLAD, which will aid in the ability to track sales agents' fraudulent or abusive transactions; (2) suggestions for reducing identity theft such as the use of headshot photos of subscribers; (3) ways to reduce identity manipulation such as the use of complete social security numbers (rather than just the last 4 digits); and, (4) methods for overcoming violations of the one-per-household requirement which would include the implementation of a "soft" cap for the number of Lifeline subscribers that can be concurrently registered to a particular address. Once the cap is met, USAC would verify there is a legitimate reason for the number of enrollments, e.g. a homeless shelter or housing authority. Additionally, OI recommended that USAC implement real time algorithms in NLAD. These algorithms would trigger the suspension of a Lifeline sales agent's ability to submit new customer information to NLAD if the agent submits a series of suspect NLAD transactions within a short time period



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(e.g., repeatedly manipulating an applicant’s name, date of birth, last 4 of SSN, or address to enroll a customer who would otherwise be blocked by NLAD).

### **E-rate Investigations Ongoing**

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

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

On September 20, 2016, DOJ declined to intervene in a *qui tam* filed in May 2015, alleging fraudulent actions in connection with an FCC auction for 1,614 licenses in the Advanced Wireless Service bands (Auction 97) as it related to the designated entities program, providing discounts against a small business’s gross winning bids in a spectrum auction.<sup>1</sup> Relator alleged that two entities<sup>2</sup> (Defendants) claiming to be eligible for such discounts, were under *de facto* control of a larger entity,<sup>3</sup> and were therefore not entitled to receive the \$3 billion dollars in bidding credits awarded to them in Auction 97.

The OI investigation did not find sufficient evidence of *scienter* to support a case against the Defendants pursuant to the False Claims Act for intentional violations of the *de facto* rules. Moreover, the FCC, in a separate administrative proceeding determined that DISH did in fact exercise *de facto* control of the Defendants and disqualified the Defendants from receiving the bidding credits.<sup>4</sup> Therefore it is unclear to what extent, if any, the FCC continues to suffer damage. Consequently, OI recommended declination of the *qui tam*.

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<sup>1</sup> 47 C.F.R. §1.2110; 47 C.F.R. §27.1106 and *AWS Report and Order*, 29 FCC Rcd 4610, 4680-81 (2014).

<sup>2</sup> Northstar Wireless, LLC and SNR Wireless Licenseco, LLC.

<sup>3</sup> DISH Network Corporation.

<sup>4</sup> *Northstar Wireless, LLC, SNR Wireless LicenseCo, LLC, Applications for New Licenses in the 1695-1710 MHz, and 1755-1780 MHz and 2155-2180 MHz Bands*, Memorandum Opinion and Order, 30 FCC Rcd 8887 (2015).

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## **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 OI 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 4 cases and closed 7 cases. With respect to a significant investigation previously reported regarding employee violations of multiple ethical and administrative rules, we are awaiting final Commission action in response to our findings.

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

### **Investigation into the Process of Developing the *Open Internet Order***

During this reporting period OI completed an investigation conducted in response to a request made on April 15, 2015, by staff from the offices of the Chairman of House Oversight and Government Reform, Jason Chaffetz, and Ranking Member Elijah Cummings, to determine if the process followed by the Commission in the development of a Commission order entitled *Protecting and Promoting the Open Internet, Report and Order on Remand, Declaratory Ruling and Order*, 30 FCC Rcd. 5601 (2015) (“*Open Internet Order*”) was free from “undue influence.”

In the *Open Internet Order*, by a 3-2 party-line vote, broadband Internet access service was classified as a “telecommunications service” under Title II of the Communications Act of 1934. Although the Court of Appeals for the District of Columbia has recently affirmed the *Open Internet Order*<sup>5</sup> including the determination that broadband may be categorized and regulated as telecommunications service, we have focused our attention, as the House Oversight and Government Reform staff requested, on whether the FCC decision-making that led to the adoption of the *Open Internet Order* by a split vote was unduly influenced by the President of

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<sup>5</sup> USTA v. FCC & USA, No. 15-1063 (D.C. Cir. 2015).

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the United States, White House staff or others. Thus, this investigation was focused on process, not on substance.

On April 20, 2015, OI started obtaining Outlook Mailboxes and archived email from network shares for all five Commissioners and thirty-eight Commission staff working in the office of the Chairman, offices of the Commissioners, Office of General Counsel, Wireless Telecommunications Bureau and Wireline Competition Bureau who OI believed may have exercised supervisory authority in the development of the *Open Internet Order*. In addition, on July 14, 2015, OI requested that the Outlook mailboxes for each of the forty-three individuals be restored as they existed on September 30, 2014, October 31, 2014, November 30, 2014, December 31, 2014, January 31, 2015, and February 28, 2015. This was done to ensure that the review included as comprehensive a copy of the record as possible. The process of restoring these mailboxes from back-up tapes took place between December 1, 2015 and March 8, 2016. All of the Outlook mailboxes and archived email were obtained directly from the FCC's Information Technology Center and included all attachments including any attached documents. Accordingly, there was no opportunity for anyone within the Commission to subjectively determine that certain documents should be withheld from OI.

Between June 16, 2015 and June 6, 2016, OI identified numerous key words and used these to run computer searches against approximately five million email messages, including over twelve million email attachments (e.g., documents, spreadsheets, etc.). The key word searches identified approximately six-hundred thousand email messages warranting further review. During the investigation, a team of 4 attorney-investigators, a computer forensic investigator, and a paralegal were assigned to work on aspects of the investigation at various times.

During the pendency of our investigation, the Majority Staff of the Senate Committee on Homeland Security and Governmental Affairs conducted its own investigation into the matters we were tasked to examine. The staff issued its report, *Regulating the Internet: How the White House Bowled Over FCC Independence*, on February 29, 2016 (Senate Staff Report). The report focused much of its attention on the emails and declarations of FCC career professional staff and concluded that “the FCC bent to the political pressure of the White House, abandoning its work on a hybrid approach to “pause” and then pivot to reclassify broadband as a telecommunications service, subjecting broadband providers to regulation under Title II of the Communications Act.”

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Upon conclusion of our review of the documents described above, we were satisfied that nothing we found refuted the **factual** findings in the Senate Staff Report, and more importantly, nothing we found in the complete, unredacted record evidenced any undue influence. Significantly, we found no evidence of secret deals, promises or threats from anyone outside the Commission, nor any evidence of any other improper use of power to influence the FCC decision-making process. To the contrary, it appears that to the extent entities outside of the Commission sought to influence the process, the positions were made known in the record, in full view of all. The Chairman acknowledged the President’s advocacy in support of modified Title II regulation and stated to the Committee he was not unduly influenced by that activity. Even after President Obama released his statement on November 10, 2014 acknowledging the FCC’s independence and encouraging Title II reclassification, Chairman Wheeler released a statement indicating, in part, “[A]s an independent regulatory agency we will incorporate the President’s submission into the record of the Open Internet proceeding. We welcome comment on it and how it proposes to use Title II of the Communications Act.” While one could reasonably challenge the Chairman’s claim that he was not unduly influenced by the President’s advocacy, as was done in the Senate Staff Report, our investigation has found no evidence to refute it.

### **Investigation into Possible Public Disclosure of Nonpublic Information**

During this reporting period, OI completed an investigation commenced in response to concerns raised in a letter dated April 15, 2016, from Senator John Thune, Chairman of the Senate Committee on Commerce, Science and Transportation, to Chairman Wheeler regarding the possible disclosure of “nonpublic information . . . directly or indirectly, to any person outside the Commission,” in violation of Section 19.735-203(a) of the FCC rules. Specifically, Chairman Thune expressed concern that information regarding the *2016 Lifeline Modernization Order*, 31 FCC Rcd 3962 (2016) (“*Lifeline Order*”), specifically news of an agreement among FCC Commissioners O’Rielly, Pai and Clyburn to vote for a hard cap on Lifeline spending set at \$2 million (compromise), appeared in the news media publications Politico and Broadcasting & Cable prior to the FCC’s vote on the *Lifeline Order*. Additionally, Chairman Thune was concerned that the information was released in an attempt to influence the outcome of the vote. In a subsequent letter from Senator Bill Nelson, Ranking Member of the Senate Committee on Commerce, Science and Transportation to David Hunt, Inspector General, FCC, dated May 12,

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2016, Senator Nelson requested the FCC OIG to conduct a fulsome investigation of all potential sources of leaked information pertaining to the *Lifeline Order*.

OI obtained the current Outlook Mailboxes and Office 365 Online Archives for FCC staff determined most relevant to the investigation, as well as the landline and mobile records of the same FCC employees. After initial forensic review using keyword searches, senior OI investigators reviewed four-thousand eight-hundred and thirty-seven (4,837) email messages, including one-thousand four-hundred and thirty-four (1,434) attachments and eighty (80) voice mail messages. Subsequently, investigators conducted ten in-person and additional telephone interviews regarding the disclosure of information reported in the Politico and Broadcasting and Cable articles.

The investigation enabled OI (1) to reconstruct with a fair degree of precision exactly how information was obtained by the press in advance of the vote and (2) to understand the motivations of key FCC officials relative to significant actions taken with respect to the Order. We determined that, pursuant to a request made by the FCC Communications Director, the Chairman authorized release of the fact that a compromise order with a cap on Lifeline may be on the agenda, pursuant to 47 C.F.R. § 19.735-203(a), thus changing the character of information from previously non-public, to information that would be available for public disclosure. Further, we found no evidence that the information was provided to the press in an attempt to unduly influence the outcome of the vote.

### **Office of Inspector General Hotline**

OI 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). OI'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 OI, and many do not rise to the level of devoting investigative

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resources to the claim. Upon receipt of a specific claim of fraud, waste, abuse, or mismanagement, OI may, where appropriate, take any one of the following actions:

1. open an OI 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.

During the current reporting period, OI received:

1. 2,798 Hotline contacts. Of these, 48 were referred to OI for possible case openings;
2. 125 were referred to FCC Consumer Center or other FCC Bureaus; and
3. 493 were referred to other agencies including the FTC.
4. 2132 were determined to lack merit for referral or further investigation.

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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 "Office of Audit" and "Office of Investigation."*

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

*Please refer to the sections of this report titled "Office of Audit" and "Office of Investigation."*

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

*Information technology project recommendations represent the most significant recommendations from previous semiannual reports for which corrective actions have not been completed. The 2015 Federal Information Security Modernization Act (FISMA) evaluation (Report no. 15-EVAL-07-09) reported 33 recommendations and 28 remain open. The FCC Electronic Mail Security assessment (Report no. 15-EVAL-07-01) reported 33 recommendations and 26 remain open. The recommendations identified on these projects address risk management, configuration management, identity and access management and information security continuous monitoring. Additionally, several findings reported by the 2015 FISMA evaluation are repeat findings from prior years, some dating back to 2008. The reports contain sensitive information regarding the FCC's information security program. Accordingly, the reports were not released to the public.*

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

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

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

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

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

*Each audit report issued during the reporting period is listed according to subject matter and described in the “Office of Audit” section of this report. We reported a total of \$62,304 of questioned costs during the reporting period (see audit report no. 15-AUD-07-07 in the section entitled Universal Service Fund Oversight Division). See Table 1 for the status of questioned or unsupported costs reported in the current and prior semiannual periods.*

7. A summary of each particularly significant report.

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

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

*See Table 1 of this report.*



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

*See Table 1 of this report.*

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

*We identified eight audit and other reports issued before the commencement of the reporting period for which open recommendations or a management decision was pending at the end of the reporting period. Of those eight reports, four were Universal Service Fund audits, and were either in audit resolution or under appeal, in accordance with Section 54.719 of the FCC's rules (Title 47 U.S. Code Section 54.719). We are evaluating management's corrective actions for one of the eight reports, the FY 2012 Web-Site Security Assessment, through our audit follow-up process. For the remaining three projects a management decision was made, but the proposed implementation dates for implementing their proposed corrective actions have passed. Additionally, management has either completed some, but not all, corrective actions, or the proposed corrective actions are being evaluated by OIG. See Appendix B for additional details.*

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

*No management decisions fall within this category.*

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

*No management decisions fall within this category.*

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

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

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**TABLE 1**

<b>OIG Reports with Questioned Costs</b>		
<b>Status of OIG Reports with Questioned Costs</b>	<b>Number of Reports</b>	<b>Questioned/ Unsupported Costs</b>
A. No management decision has been made by the commencement of the reporting period.	8	\$5,353,165
B. Issued during the reporting period.	1	\$62,304
C. Management decision made during the reporting period.		
Value of disallowed costs.	5	\$4,040,585
Value of costs not disallowed.		
D. Management decision not made by the end of the reporting period.	4	\$1,376,884

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## APPENDIX A

### **Peer Review Results**

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

### **Office of Audit peer review results**

During this reporting period, the Special Inspector General for Troubled Asset Relief Program (SIGTARP) OIG reviewed the FCC OIG Office of Audit's (OA) system of quality control. Based on their review, the SIGTARP OIG determined that OA's system of quality control in effect for the year ended March 30, 2016, was suitably designed to provide reasonable assurance that the OA is performing and reporting in conformity with applicable professional standards in all material respects. OA received a peer review rating of "Pass." SIGTARP OIG's letter of comment contained three recommendations that, while not affecting the overall opinion, were designed to further strengthen the system of quality control in the Office of Audits. We have already initiated corrective actions to resolve the recommendations identified by the review.

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## APPENDIX B

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

Report Number	Audit Title	Report Date	Comments
10-AUD-11-01	Audit of Hampstead Hill Elementary School	12/19/2012	Management decision pending.
12-EVAL-12-18	FY 2012 Web-Site Security Assessment	4/24/2013	Audit follow-up pending.
12-AUD-12-20	Audit of FCC Compliance with OMB A-130 Audit	3/12/2014	OIG is evaluating Management's recent closure request for the 8 open recommendations.
12-AUD-12-19	Audit of FCC Compliance with Red Light Rule: Debt Collection	6/4/2014	A total of 8 recommendations were closed during the period, and 6 remain open.
12-AUD-01-04	Lifeline Audit of Easy Telephone	9/30/2013	Management decision pending
12-AUD-01-05	Lifeline Audit of Absolute Home Phones	9/30/2013	Management decision pending
12-AUD-01-12	Lifeline Audit of Affordable Phone Service	9/30/2013	Management decision pending
15-EVAL-07-01	FCC Electronic Mail Security Assessment	9/30/2015	A total of 3 recommendations were closed during the semiannual period, and 27 recommendations remain open.

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



**Report fraud, waste, and abuse to:**

**Email: [Hotline@FCC.gov](mailto:Hotline@FCC.gov)**

**Call Hotline: 202-418-0473**