

**Federal Communications Commission
Office of Inspector General**



Semiannual Report to Congress

April 1, 2017—September 30, 2017

THE FEDERAL COMMUNICATIONS COMMISSION



Left to Right:

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

COVER MEMORANDUM

DATE: November 21, 2017

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

FROM: Inspector General

SUBJECT: Semiannual Report to Congress

In accordance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. 3 § 5, I have attached my report summarizing the activities and accomplishments of the Office of the Inspector General (OIG) during the six-month period ending September 30, 2017. In accordance with Section 5(b) of that Act, it would be appreciated if this report, along with any associated report that you may prepare, be forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

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

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



David L. Hunt
Inspector General

Enclosure

TABLE OF CONTENTS

<u>INTRODUCTION</u>	4
<u>OFFICE OF MANAGEMENT</u>	5
<u>Office Staffing</u>	5
<u>Internship Program</u>	5
<u>Process Improvement</u>	5
<u>Legislative and Policy Matters</u>	6
<u>OFFICE OF INVESTIGATION</u>	7
<u>Activity During This Period</u>	7
<u>Statistics</u>	8
<u>Significant Activities</u>	8
<u>Office of Inspector General Hotline</u>	16
<u>OFFICE OF AUDIT</u>	18
<u>Operations, Financial, and Information Technology Division</u>	18
<u>Completed OFID Audits and Other Projects</u>	18
<u>In-Process OFID Audits and Other Projects</u>	19
<u>Universal Service Fund Division</u>	20
<u>Completed USFD Audits and Other Projects</u>	20
<u>In-Process USFD Audits and Other Projects</u>	21
<u>REPORTING REQUIREMENTS</u>	22
<u>TABLE 1</u>	
<u>OIG Reports with Questioned Costs</u>	28
<u>APPENDIX A</u>	
<u>Peer Reviews Results</u>	29

INTRODUCTION

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

The Federal Communications Commission is composed of five (5) members who are appointed by the President and subject to confirmation by the Senate. Normally, one Commissioner is appointed or reappointed each year, for a term of five (5) years. One of the members of the Commission is designated by the President to serve as Chairman, or chief executive officer, of the Commission. Ajit Pai currently serves as the Chairman. Mignon Clyburn, Michael O'Rielly, Brendan Carr and Jessica Rosenworcel currently serve as Commissioners. Most of the FCC's employees are located in Washington, D.C. at 445 12th St., S.W. Field offices and resident agents are located throughout the United States.

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

Stephen Ebner, AIG for Management

Jay C. Keithley, AIG for Investigations and Counsel

Robert McGriff, AIG for Audit

In this semiannual report, we discuss both the major accomplishments and activities of the OIG from April 1, 2017 through September 30, 2017, as well as its goals and future plans.

OFFICE OF MANAGEMENT

Office Staffing

Currently our office consists of 50 highly-educated, experienced professional and administrative staff including auditors, investigators, attorneys, paralegals, an IT specialist, a contract specialist, a computer forensic investigator, and a data-mining specialist.

Training and education are important mission objectives to ensure we continue increasing the expertise of all staff and to satisfy the training requirements mandated by various professional organizations. To that end, staff have attended and completed courses sponsored by government agencies, including the Federal Law Enforcement Training Center, and professional organizations, such as the Institute of Internal Auditors, American Institute of Certified Public Accountants, Association of Governmental Accountants, and the Association of Certified Fraud Examiners.

Internships

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

Process Improvement

In mid-2017, FCC OIG Investigations began using Amazon Web Services' (AWS) secure cloud platform to expand analytical capacities and improve data processing, primarily relating to OIG's investigations of waste, fraud, and abuse in the Universal Service Fund programs. Prior to using AWS, OIG's data analytics relied on local and virtual servers running various SQL database management systems. Shifting some of our data processing functions to AWS has allowed OIG to dynamically scale up our analytical capabilities and reduce processing time, even when working with ever larger datasets containing millions of records.

Legislative and Policy Matters

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

Further, during the reporting period, we shared recommendations to prevent and detect fraud in the E-Rate program with Commission and Universal Service Administrative Company (USAC) staff. *See infra* pp. 12-13.

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

OFFICE OF INVESTIGATION

OIG Office of Investigation (OI) covers a wide range of topics touching on myriad aspects of the FCC's mission and programs. Most significantly, our investigations often address allegations of criminal misconduct or civil fraud in the Commission's Universal Service and Telecommunications Relay programs. We deal with complex investigations, large criminal conspiracies, and matters involving complex financial transactions throughout the United States and its territories. These difficult and wide-ranging cases often require substantial investigative expertise and resources including personnel on the ground across several states, or high-grade forensic tools and the expertise to use them. In these cases, we have always received, and are grateful for, the assistance of other agencies, especially the Offices of Inspector General of other federal agencies, DOJ and the FBI.

OI receives and investigates complaints regarding the manner in which the FCC executes its programs, how it handles its operations administratively, and how the FCC conducts its oversight responsibilities. Allegations come from a variety of sources including FCC managers and employees, contractors, program stakeholders, and the public at large. Whistleblower requests for anonymity are honored, except when identification is needed for law enforcement purposes. Allegations can also be referred by OIG auditors.

In addition to investigations regarding Commission programs, OI investigates allegations of improper employee and contractor activity implicating federal statutes or regulations establishing standards of conduct and procedure. While we have made recent additions to our staff, OI, like most government offices, has an ever-increasing volume of work and limited resources. Thus, matters having the potential to significantly impact federal funds, important FCC missions or programs, or the basic integrity and workings of the agency receive the highest priority for investigation and assignment of resources.

Activity During This Period

At the outset of this reporting period, eighty-four cases were pending. Over the last six months, fourteen cases have been closed and four opened.

As a consequence, a total of seventy-four 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, 2017 = 84

New Cases = 4

Cases Closed = 14

Cases pending as of September 30, 2017 = 74

Significant Activities

Several of the Office's significant activities are described below. However, we discuss investigations only when and if information may be made public without negative impact on law enforcement activities, including criminal prosecutions, and without divulging investigative techniques. Thus, many matters could not be considered for inclusion in this summary. In this reporting period, in particular, we have been working on numerous investigations upon which we cannot report, including matters before the Grand Jury and sealed qui tams.

Investigations into Fraud in the Federal Universal Service Program

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

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

The *Schools and Libraries Program*, also known as “E-Rate,” provides support to eligible schools and libraries in every U.S. state and territory to help fund telecommunication services, Internet access, and internal connections. Over 38,000 eligible entities benefited from the

program in 2016, bringing Internet services to millions of students and library patrons. E-Rate funding totaled \$2.39 billion in program year 2016. Two major E-Rate modernization orders were released in 2014. Those orders further E-Rate program goals by increasing funding for Wi-Fi networks in elementary and secondary schools and libraries, expanding high speed broadband connectivity, and restructuring the eligible services framework.

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

The *Lifeline Program* provides support to eligible telecommunications carriers that, in turn, offer discounts on telecommunications services to eligible consumers. Over 13 million low-income households throughout the nation benefited from 2016 program year payments of approximately \$1.5 billion.

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

The bulk of OI's 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 DOJ, the Department of Education and its OIG, and various U.S. Attorneys, have resulted in many successes, including civil settlements and criminal convictions.

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

Lifeline Investigations

On February 18, 2015, the United States Attorney's Office for the Eastern District of Arkansas indicted a sales agent and a co-conspirator for fraudulently enrolling fictitious wireless customers in the Lifeline program from approximately December 2012 to April 2013. The agent, Cody Joe Morris, was paid on commission and enrolled 850-950 non-existent Lifeline customers in the program. After the phones were activated and Lifeline service commenced, Morris threw away or gave away the phones. On May 8, 2017, Morris pled guilty to conspiracy to commit wire fraud, a class B felony, and was ordered to pay restitution of \$239,750 in installments to the Federal Communications Commission. Morris was also sentenced to time served, which was one day. OI provided support in this matter to the United States Attorney's Office. OI believes this is the first instance of a judicial remedy to fraud in the Lifeline program being applied to a street-level sales agent.

Lifeline Team Recommendations

As reported in several recent SARs, OI's Lifeline Investigations team developed and shared a series of algorithms with USAC that can be utilized to identify fraud, waste and abuse in the program. (*See* FCC OIG SAR April 1, 2016 – September 30, 2016, p. 25, and FCC OIG SAR October 1, 2016 – March 31, 2017, p. 12). Likewise, OI's Lifeline team has shared a number of recommendations with the Commission and USAC aimed at the reduction of fraud in the program based on the team's investigative findings. (*See* Id).

During the current reporting period, OI's Lifeline team revised the algorithms and recommendations referenced above to reflect OI's findings from its investigative activities including the Total Call Mobile investigation. (*See* FCC OIG SAR October 1, 2016 – March 31,

2017, pgs. 10-12 for a detailed description). OI’s Lifeline team shared the revised algorithms and recommendations and met with Commission and USAC staff to discuss the revisions.

Following up on GAO’s finding in its 2017 report addressing significant risks in the Lifeline program, of 106 deceased individuals on Lifeline providers’ roles, using a 2013 Social Security Administration Death Master File (DMF) found on the Internet, we discovered one Lifeline provider with thousands of “deceased subscribers.” We recommended that USAC obtain a current copy of the DMF to conduct further comprehensive inquiries as to whether other providers are similarly fraudulently signing up deceased individuals.

National Lifeline Association Annual Conference

Two OI attorney-investigators attended the May 2017 National Lifeline Association Annual Conference. The conference, organized by the National Lifeline Association—a group of industry stakeholders—was well attended by a spectrum of entities involved in the Lifeline program including a large number of Electronic Transfer Credits (ETCs), software development and data processing vendors, and law firms who represent industry actors. Representatives from USAC and the Oklahoma Corporation Commission also attended.

Conference speakers repeatedly expressed some troubling misperceptions regarding fraud in the Lifeline program and the responsibility of ETCs to prevent and monitor fraud, including the following messages:

- 1) Waste, fraud, and abuse are problems of the past and the Lifeline program no longer faces these issues;
- 2) The implementation of NLAD in 2014 shifted responsibility for detecting duplicates from ETCs to USAC; and
- 3) The National Verifier will create a “safe harbor” for ETCs.

Concerned about the current and future compliance environment in the Lifeline program and the Commission’s future efforts to deter waste, fraud, and abuse in the program, OI advised the Commission and USAC of these messages in a memorandum.

On June 29, 2017, the Commission’s Wireline Competition Bureau issued a Public Notice to remind ETCs of their ongoing responsibility to claim Lifeline support only for eligible low-

income consumers. The Public Notice also clarified ETC responsibility for any fraud that forms the basis of claims for Lifeline reimbursement.

E-Rate Investigations Ongoing

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

Identification of Potential Discount Rate Discrepancies

In response to perceived discrepancies between the reported percentage of students eligible for free/reduced lunches and that observed by members of OI's E-Rate team at various schools where site visits were conducted, OI has undertaken an investigation into potential fraudulent reporting of National School Lunch Program (NSLP) numbers by applicants to USAC. OI has worked with members of the United States Department of Agriculture as well as multiple state departments of agriculture and education to obtain NSLP information and documentation for multiple schools. This information has then been compared to information provided by applicants to USAC. To date, OI has identified over 100 schools with a discrepancy greater than 10% between the number reported to USAC and that reported to the state. This investigation is ongoing. At this time, our findings are preliminary and we are actively further examining these issues, working with both the Department of Education OIG and the FBI in anticipation of potential criminal, civil, and/or administrative cases.

Previous E-Rate Program Recommendations

During the previous reporting period, OI's E-Rate team developed two recommendations to increase compliance with program rules and strengthen OI's ability to detect fraud, waste and abuse. As detailed below, OI's recommendation concerning the retention of information by USAC has been instituted and progress is currently being made on the creation of an online competitive bid repository within E-Rate Productivity (EPC).

USAC's Information Collection and Retention

Over the past six months, along with input from OI, USAC has worked to increase their collection and retention of certain information in its EPC portal. The solution developed by USAC will not only provide information that was previously available to OI prior to EPC's creation, but will additionally provide previously unavailable information giving OI investigators a further resource in the detection and pursuit of fraud. USAC has agreed to provide the newly obtained information to OI on a bi-annual and "as-needed" basis. This information will be of great value to OI in both the proactive identification of fraud and in the strengthening of cases where fraud was previously identified.

Creation of an Online Competitive Bid Repository within EPC

Recently, OI has held discussions with both USAC and WCB related to our previous recommendation regarding the creation of an online competitive bid repository within EPC. Both WCB and USAC are currently assessing this recommendation. We will continue to pursue this matter and provide our input when requested. It is our hope USAC will be able to create this repository during late 2017 or early 2018 in connection with the additional changes to EPC anticipated by USAC.

Suspension and Debarment Recommendation

Over the past several years, OI has been tracking Commission efforts to expand the Commission's suspension and debarment criteria to cover additional circumstances not currently addressed. Currently, suspension and debarment actions at the Commission are extremely limited and only occur in instances where a criminal conviction or civil judgment arising out of activities associated with or related to the Universal Service Fund (USF) has occurred. The limited nature of this criteria hamstrings both OI and the Commission's efforts to protect the USF from non-responsible persons and entities. In multiple instances, OI has become aware of companies and individuals participating in one of the USF programs who should be suspended or debarred, but are nevertheless allowed to continue participating and receiving taxpayer dollars because the suspension and debarment rules currently in place are overly restrictive.

OI is aware a suspension and debarment reform draft has been created by the Commission's Office of General Counsel, but has not yet been instituted. OI continues to recommend that any reforms include the following elements: 1) increase suspension criteria to cover indictments, information, and/or adequate evidence involving fraud or abuse of the Universal Service fund; 2) addition of a Suspension and Debarment Official for oversight purposes; 3) rules preventing contractors and/or entities suspended or debarred from any other federal program from participating in any FCC programs; and 4) requirement that the Suspension and Debarment Official notify other federal agencies when an individual or entity has been suspended or debarred.

Rural Health Care

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

False Claims Act

In previous SARs, we reported on several court decisions that have considered the continued use of the FCA in matters involving the USF and Telecommunications Relay Service (TRS) programs. See SARs for Oct. 1 - March 31, 2015; April 1- September 31, 2105 and Oct 1- March 31, 2016.

Most problematic has been the case of *Ex rel. Shupe v. Cisco Sys., Inc.*, 759 F.3d 379 (5th Cir. 2014) (*Shupe*) wherein the court held that E-Rate funds (effectively all USF funds) are not funds "provided by" the federal government pursuant to the FCA, and *inter alia*, not subject to the FCA. DOJ believes *Shupe* was wrongly decided and therefore has continued to support the Commission.

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

Moreover, after years of OIG urging, the FCC is finally in the process of transferring USF funds from a third-party banking institution to the Treasury. This move, scheduled for completion next year, will at least address the *Shupe* court's major concern and will help protect future USF funds.

Regardless, the pall of *Shupe* remains, and until numerous circuit courts reject its reasoning, the continued utility of the FCA for purposes of protected USF Funds remains at risk and the government may lose the ability to recover hundreds of millions of dollars of USF fraud perpetrated prior to any movement of funds to the Treasury. Thus, we continue to believe the most effective solution would be a statutory amendment, presumably to the Communications Act, to clarify that USF and TRS funds are, and always have been, subject to the FCA.

Internal Affairs

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

During this reporting period, OI Internal Affairs Division, opened two cases and closed five cases.

Employee used an FCC-issued computer to access and view pornographic material in violation of the Commission's directive and policies governing cyber security

In January 2017, OIG received allegations that an FCC employee was using his FCC-issued computer to access and view pornography. Based on those allegations, OIG obtained and reviewed digital evidence and interviewed the employee. The investigation identified pornographic and inappropriate images indicating that the employee used his FCC-issued computer and the Commission network in violation of the Commission's directive and policies governing cyber security. In June 2017, the agency issued a Notice of Proposed Removal for the employee and the employee retired from federal service.

Employee Violations of Multiple Ethical and Administrative Rules

In a previous SAR, OI reported closure of an investigation, Employee Violations of Multiple Ethical and Administrative Rules (misuse of Commission facilities to conduct personal business and view pornography and time and attendance abuse). *See* SARs for Oct. 1 - March 31, 2016). Since that time, the Commission has terminated two of the employees. One of the employees has appealed the termination and the case is currently pending before the Merit Systems Protection Board (MSPB). Management is still evaluating the third employee's case for action.

Office of Inspector General Hotline

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

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

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

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

telephone, television and wireless services. The goal of this process is to foster a mutually satisfactory resolution of the complaint between the service provider and its customer.

During the current reporting period, OIG received:

1. 3696 Hotline contacts. Of these, 39 were referred to OIG for possible case openings.
2. 186 were referred to FCC Consumer Center or other FCC Bureaus.
3. 289 were referred to other agencies including the FTC.

OFFICE OF AUDIT

Under the authority of the IG Act, as amended, the Office of Audit (OA) conducts or contracts for the performance of independent and objective audits, inspections, evaluations and related projects designed to promote economy, effectiveness and efficiency in FCC programs and operations and to prevent and detect fraud, waste and abuse. Audits, inspections, evaluations and other projects are conducted in accordance with relevant professional standards, including Generally Accepted Government Auditing Standards (GAGAS), also known as the Yellow Book, and Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspections and Evaluations.

OA is organized into two reporting divisions - the Operations, Financial, and Information Technology Division (OFID) and the Universal Service Fund Division (USFD). Highlights of the work conducted by OA during the current semiannual reporting period are provided below.

Operations, Financial, and Information Technology Division

OFID is organized into three audit teams that are responsible for audits, inspections, evaluations and other projects. Mandatory projects include the Annual Financial Statement audit, Federal Information Security Modernization Act (FISMA) evaluation, Digital Accountability and Transparency Act audit and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) compliance audit. OFID contracts for audit services with Independent Public Accounting (IPA) firms for the majority of the mandated audits and evaluations, and provides oversight and monitoring of all contracted audit services.

During the reporting period, OFID completed one mandatory and one discretionary project. Four projects are in process and will be summarized in a future reporting period.

Completed OFID Audits and Other Projects

FCC Compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012 (Report No. 17-AUD-01-01)

IPERIA requires each agency Inspector General to annually review improper payment reporting in the Agency Financial Report, and accompanying materials, to determine if the agency is in compliance with IPERIA. OA contracted with an IPA firm for an audit of the FCC's compliance with IPERIA for Fiscal Year 2016. The audit report, issued on May 15, 2017, found that management complied with IPERIA in accordance with criteria defined in Office of Management and Budget (OMB) Memorandum M-15-02, Appendix C to OMB Circular No. A-123 Management's Responsibility for Internal Control, *Requirements for Effective Estimation and Remediation of Improper Payments*. No reportable findings were noted.

Website Security Assessment Follow-up (Report No. 16-EVAL-09-06)

OA contracted with an IPA firm to perform a follow-up security assessment of the FCC.gov public website. A Cybersecurity consulting firm performed the prior Website and Infrastructure Security Assessment. The prior assessment report (Report No. 12-EVAL-12-18), dated April 24, 2013, contained 16 findings that represented security risks to the FCC and offered 37 recommendations.

The objectives of the follow-up assessment were to review and assess the corrective actions taken in response to the 2013 assessment and to determine the current status regarding the security of the FCC.gov website. We issued the Website Security Assessment Follow-up Report on July 19, 2017. The IPA concluded that the Commission did not comply with FCC policy and NIST guidance on information security related to the website upgrade for FCC.gov. The IPA assessed management's corrective actions and concluded that 15 recommendations should be closed. The remaining 22 unimplemented recommendations were consolidated into 17 recommendations intended to improve the security of the FCC.gov public website. FCC management stated they would address the report findings and recommendations while continuing to enhance the overall cybersecurity posture of the FCC.

In-Process OFID Audits and Other Projects

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

Audit of FCC's Compliance with the Digital Accountability and Transparency Act (Project No. 17-AUD-08-04)

Fiscal Year 2017 FCC Financial Statement Audit (Project No. 17-AUD-07-03)

Fiscal Year 2017 Federal Information Security Management Act Evaluation
(Project No. 17-EVAL-07-01)

Universal Service Fund Division

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

To leverage our resources, USFD is developing a risk profile of each USF program by identifying, categorizing and monitoring risk. In developing data for the risk profile, we will perform random and targeted audit testing of beneficiaries. Our risk profile modeling will help identify the most cost-effective audits and help conserve our limited resources. USFD also coordinates with USAC's Internal Audit Division when planning audits to ensure both organizations complement the work of the other and do not perform duplicate work. We share information on USF program risks, audit results, testing tools, policy changes and other USF program developments.

During the reporting period, USFD completed one project. Six projects are in process and will be summarized in a future reporting period.

Completed USFD Audits and Other Projects

Audit of Nexus Communications, Incorporated (Lifeline) (Report No. 15-AUD-07-05)

OA contracted with an IPA firm to conduct a performance audit of Nexus Communications, Incorporated (Nexus). The objective of the audit was to determine: 1) Nexus's compliance with Title 47 of the Code of Federal Regulations, specifically 47 CFR §§ 54.400 - 54.422, and related orders regarding the Lifeline Program; and (2) Nexus's implementation of adequate and effective controls to ensure USF funds were safeguarded and used for the intended purposes.

The audit found three deficiencies: (1) inadequate record keeping; (2) service provided to subscribers who were ineligible because they resided outside of the Nexus's Illinois study area code; and (3) some of Nexus's subscribers did not provide their full names, as required by Lifeline Program rules. The audit recommended that Nexus enhance its controls over for the Lifeline Program and consult with USAC to eliminate any possible ineligible subscribers from the Program. Nexus management did not concur with the audit report findings and recommendations.

In-Process USFD Audits and Other Projects

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

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

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

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

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

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

REPORTING REQUIREMENTS

The following are OIG's response to the 22 specific reporting requirements set forth in Section 5(a) of the Inspector General Act of 1978, as amended.

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

Please refer to the sections of this report titled “Office of Audit” and “Office of Investigation.”

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

Please refer to the sections of this report titled “Office of Audit” and “Office of Investigation.”

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

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

Recommendations to help detect and deter waste and fraud in the USF E-Rate and Lifeline Programs, recommendations mentioned in this and prior semiannual reports, are also significant recommendations that have not been implemented. As the GAO Lifeline Audit found,

the Program’s structure subjects it to potential fraud and significant risks such as the enrollment of ineligible subscribers remain.

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

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

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

No report was made to the Chairman of the FCC under section 6(b)(2) of the Inspector General Act of 1978, as amended, during this reporting period.

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

Each audit, inspection and evaluation report issued during the reporting period is listed according to subject matter and described in the “Office of Audit” section of this report. See Table 1 for the status of questioned or unsupported costs.

7. A summary of each particularly significant report.

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

8. Statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs), for reports—(A) for which no management decision had been made by the commencement of the reporting period; (B) which were issued during the reporting period; (C) for which a management decision was made during the reporting period, including-

(i) the dollar value of disallowed costs; and (ii) the dollar value of costs not disallowed; and (D) for which no management decision has been made by the end of the reporting period.

See Table 1 of this report.

9. Statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the dollar value of recommendations that funds be put to better use by management, for reports—(A) for which no management decision had been made by the commencement of the reporting period; (B) which were issued during the reporting period; (C) for which a management decision was made during the reporting period, including—(i) the dollar value of recommendations that were agreed to by management; and (ii) the dollar value of recommendations that were not agreed to by management; and (D) for which no management decision has been made by the end of the reporting period.

See Table 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 (A) for which no management decision had been made by the end of the reporting period (including the date and title of each such report), an explanation of the reasons why such a management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report; and (B) for which no establishment comment was returned within 60 days of providing the report to establishment; and (C) for which there are any outstanding unimplemented recommendations, including the aggregate potential cost savings of those recommendations.

We identified one inspection report issued before the commencement of the reporting period for which an acceptable management decision was pending at the end of the reporting period (Inspection of FCC's Parking Management Services, Report no. 15-INS-10-01, dated March 9, 2017). FCC submitted a management decision on August 28, 2017. However, FCC's corrective action plan did not adequately address our recommendation to recover any unallowable costs retained by the FCC's parking management services contractor. Potential cost savings associated with the recommendation total \$123,225. See Table 1 of this report.

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

No management decisions fall within this category.

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

No management decisions fall within this category.

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

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

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

See Appendix A of this report.

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

See Appendix A of this report.

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

No peer review of another Office of the Inspector General was conducted during the reporting period.

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

The total number of investigative reports during the reporting period is set out in the Office of Investigations Section. The total number of cases referred to the Department of Justice for criminal prosecution is 2, however, the exact number of persons who may be subject to prosecution is still undetermined. No person was referred to State or local prosecuting authorities for criminal prosecution, and no indictments or “criminal informations” were returned during the reporting period.

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

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

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

Two investigations involving senior (GS-15 level) employees are described in this semiannual report. With respect to one of the employees, one aspect of the employee’s conduct was referred to the IRS but not pursued by the Assistant U.S. Attorney to whom the IRS referred the matter. The employee was discharged, and his appeal of the discharge is pending before the Merit Systems Protection Board. With respect to the other employee, administrative action was taken resulting in the employee’s retirement.

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

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

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

The Office of Audit's contracted evaluators experienced difficulty in getting timely information from FCC management during the FY 2017 FISMA evaluation. The delays in delivering the information increased the risk that the evaluators would not complete their IT security testing by the project reporting milestones. To mitigate risks caused by the delays, Office of Audit issued a contract modification to increase the level of effort, which resulted in additional costs to the government.

The Office of Investigations has had difficulty getting timely responses from the Commission's Information Technology Center in OI's investigation of the reported Dedicated Denial of Service attack on the Commission's Electronic Comment Filing System.

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

No inspection, evaluation or audit was closed and not disclosed to the public. Two investigations of senior Government Employees (one SES and one GS-15) were closed and not reported to the public during the reporting period. In both cases the allegations, Time and Attendance Abuse and Computer Misuse, respectively, were not supported by the evidence and the employees were exonerated. A third investigation against a senior (GS-15) employee is reported in the Investigations Section of this semiannual report.

TABLE 1

Questioned Costs OIG Audit, Inspection and Evaluation Reports		
Status of OIG Reports with Questioned Costs	Number of Reports	Questioned Costs
A. No management decision has been made by the commencement of the reporting period.	6	\$1,248,286
B. Issued during the reporting period.		
C. Management decision made during the reporting period.		
Value of disallowed costs.	5	\$1,125,061
Value of costs not disallowed.		
D. Management decision not made by the end of the reporting period.	1	\$123,225

APPENDIX A

Peer Review Results

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

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

SIGTARP OIG's letter of comment, dated September 21, 2016, contained three recommendations that, while not affecting the overall opinion, were designed to further strengthen OA's system of quality control. OA has completed in-house training and issued policy on tracking continuing professional education in response to the SIGTARP Peer Review letter of comment. Additionally, our Audit Manual is being updated to strengthen guidance in areas where weaknesses were noted by the SIGTARP peer review. Our progress in updating the Audit Manual was hampered by the retirement of the Deputy Assistant Inspector General for Policy and Quality Assurance in April 2016. We are actively recruiting and plan to select a candidate to fill the vacancy within the next reporting period.

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