



# Office of Inspector General Federal Communication Commission

**Semiannual Report to Congress  
October 1, 2011 through March 31, 2012**



## The Federal Communications Commission



(left to right)

**Commissioner McDowell, Chairman Genachowski,**

**Commissioner Clyburn**

## Cover Letter

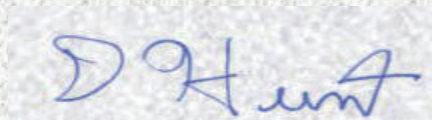
OFFICE OF INSPECTOR GENERAL

**DATE:** March 31, 2012  
**TO:** Chairman, Federal Communications Commission  
**REPLY TO**  
**ATTN OF:** Inspector General  
**SUBJECT:** Semiannual Report to Congress

In accordance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. 3 § 5, I have attached my report summarizing the activities and accomplishments of the Office of the Inspector General ("OIG") during the six-month period ending March 31, 2012. In accordance with Section 5(b) of that Act, it would be appreciated if this report, along with any associated report that you prepare as Chairman of the Federal Communications Commission ("FCC"), were forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

This report describes audits that are in process, as well as those that have been completed during the preceding six months. OIG investigative personnel continued to address issues referred to, or initiated by, this office. Where appropriate, investigative and audit reports 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 and we welcome any comments or suggestions that you might have. Please let me know if you have any questions or comments.



David L. Hunt  
Inspector General

Enclosure

cc: Commissioners  
FCC Chief of Staff  
FCC Managing Director



## TABLE OF CONTENTS

<b>Introduction</b>	<b>5</b>
<b>OIG Management Activities</b>	<b>6</b>
Office Staffing	6
Internship Program	6
Legislative and Policy Matters	7
<b>Audit Activities</b>	<b>8</b>
Financial Audits	8
Performance Audits	9
Universal Service Fund (“USF”) Oversight	12
<b>Investigations</b>	<b>16</b>
Activity During this Period	16
Significant Activities	17
OIG Hotline	24
<b>Reporting Requirements of the Inspector General Act</b>	<b>25</b>
Table 1 – OIG Reports with Questioned Costs	26
APPENDIX – Results of Peer Reviews	27

## 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.

As of the date of this report, the FCC consists of a Chairman and two Commissioners, who are appointed by the President and confirmed by the United States Senate. Julius Genachowski serves as Chairman. Robert M. McDowell and Mignon Clyburn serve as Commissioners. Most of the FCC's employees are located in Washington, D.C. at the Portals II building, which is located at 445 12th St., S.W., Washington, D.C. Field offices and resident agents are located throughout the United States.

The Office of Inspector General ("OIG" or "Office") is dedicated to ensuring compliance with the requirements of the Inspector General Act and assisting the Chairman in his continuing efforts to improve the effectiveness and efficiency of the Commission. In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Inspector General ("IG"), David L. Hunt, reports directly to the Commission. Management matters are coordinated with the Chairman's office. The IG's staff consists of attorneys, auditors, economists, investigators, management specialists and support personnel. Principal assistants to the IG are: Thomas C. Cline, Deputy IG; William K. Garay, Assistant Inspector General ("AIG") for Audits; Gerald T. Grahe, AIG for Universal Service Fund Oversight; Harold Shrewsbury, AIG for Management; Jay C. Keithley, Acting AIG for Investigations and Counsel to the IG; Kathleen O'Reilly, Special Counsel on the Universal Service Fund, and Jon R. Stover, Senior Legal Advisor.

This semiannual report includes the major accomplishments and activities of the OIG from October 1, 2011 through March 31, 2012, as well as information on the IG's goals and future plans.



## OIG MANAGEMENT ACTIVITIES

### Office Staffing

OIG is comprised of 24 Full Time Equivalent (“FTE”) and 11 Not To Exceed (“NTE”) four-year term appointed professionals, three FTE and two NTE support personnel, and one intern. The staffing needs of this office have been described in the last several Semiannual Reports. At one point this office had 19 NTEs. These positions are funded through monies transferred from USAC pursuant to the Consolidated Appropriations Act, 2008 (P.L. 110-161) which specifies that “... \$21,480,000 may be transferred from the Universal Service Fund in fiscal year 2008 to remain available until expended, to monitor the Universal Service Fund program to prevent and remedy waste, fraud and abuse, and to conduct audits and investigations by the Office of Inspector General...” These employees allow this Office to more aggressively pursue fraud and waste in the USF program. All monies transferred via the above-mentioned appropriations act not being used to pay NTE employee salaries and benefits are used to further support USF oversight.

Currently, 13 of the original 19 NTE staff remain in OIG. Six of the original 19 have accepted permanent positions within the FCC or elsewhere in the Federal Government. This personnel loss affects the OIG’s ability to perform audits and investigations. The OIG requested funds in the FY 2012 and FY 2013 budget requests for an additional staff of 19 FTE employees. Additional funds were provided to OIG in the FY 2012 budget authorization, but we were not provided a specific FTE allocation. We are currently discussing our staffing needs with FCC management to develop a hiring plan.

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

### Internship Program

OIG welcomes college interns during the fall, spring and summer semesters. Most of these students take their internships for credit. Our interns have come from schools across the country. At the date of this report, we have two interns who attend American University in Washington, DC. These internships have proven to be rewarding experiences for all participants. Students leave with a good understanding of how a government agency operates, and they have the opportunity to encounter challenges while enjoying the rewards that can come from public service. In turn, the Office has benefited from the students’ excellent work performance.

## OIG MANAGEMENT ACTIVITIES

### **Legislative and Policy Matters**

On February 16, 2002, the IG testified before the Subcommittee on Communications and Technology of the Committee on Energy and Commerce, United States House of Representatives on “The Budget and Spending of the Federal Communications Commission.” The IG discussed budget and staffing issues and described the dollar to employee ratio that limits our ability to seek more recoveries and initiate audits and investigations. OIG is tasked with overseeing entities that pay out more than \$10 billion annually with less than 40 employees (not including all our other tasks, which are significant). OIG believes this ratio is outside the norm and should be addressed, particularly given our recent history of recoveries and the substantial impact OIG has had on stemming waste and fraud in the VRS industry.

Pursuant to section 4(a)(2) of the Inspector General Act of 1978, 5 U.S.C.A. App. as amended, our Office monitors and reviews existing and proposed legislation and regulatory proposals for their potential impact on the OIG and the FCC’s programs and operations. Specifically, we perform this activity to evaluate legislative potential for encouraging economy and efficiency while helping to reduce fraud, waste, abuse, and mismanagement.

In addition to legislative developments, OIG continuously monitors FCC policy development and provides input as appropriate. We have also participated in many surveys and data calls sponsored by the Council of Inspectors General for Integrity and Efficiency and the Recovery Accountability and Transparency Board.

Please see the Appendix to this report for information regarding peer reviews as required by Public Law 111-203.



## AUDIT ACTIVITIES

Under the authority of the Inspector General Act of 1978, as amended, the OIG conducts independent and objective audits and inspections designed to prevent and detect waste, fraud and abuse and to promote economy, effectiveness and efficiency in FCC programs and operations. These audits and inspections are conducted in accordance with professional standards. The following sections are highlights of the work conducted by the audit teams during the current reporting period.

### Financial Audits

Financial statement audits are mandatory and provide reasonable assurance as to whether the agency's financial statements are presented fairly in all material respects. Other objectives of financial statement audits are to provide an assessment of the internal controls over transaction processing for accurate financial reporting and an assessment of compliance with applicable laws and regulations.

#### **Audit of the Federal Communications Commission Fiscal Year 2011 Consolidated Financial Statements**

In accordance with the Accountability of Tax Dollars Act of 2002, the FCC prepared consolidated financial statements for the 2011 fiscal year in accordance with Office of Management and Budget ("OMB") Circular A-136, Financial Reporting Requirements, and subjected them to audit. The Chief Financial Officers Act of 1990 ("CFO Act"), as amended, requires the FCC IG, or an independent external auditor selected by the IG, to audit the FCC financial statements in accordance with government auditing standards issued by the Comptroller General of the United States ("GAGAS"). Under the direction of the Office, KPMG LLP ("KPMG"), an independent certified public accounting firm, performed the audit of FCC's FY 2011 consolidated financial statements. The audit was conducted in accordance with GAGAS, OMB Bulletin 07-04, as amended, and applicable sections of the U.S. Government Accountability Office ("GAO")/President's Council on Integrity & Efficiency ("PCIE") Financial Audit Manual. As a result of the 2011 financial statement audit, KPMG issued an independent auditor's report with an unqualified opinion on FCC's financial statements, a report on internal controls over financial reporting, and a report on compliance and other matters dated November 10, 2011. KPMG reported that FCC's financial statements were fairly presented in all material respects in conformity with U.S. generally accepted accounting principles.

The report on internal controls over financial reporting identified two control weaknesses that were considered significant deficiencies. The first significant deficiency related to inadequate financial system functionality and integration. The FCC implemented a new financial system in October 2011. However, the independent auditor reported that, throughout the fiscal year, there were several functionality issues with the new system. As a result of the functionality



## AUDIT ACTIVITIES

issues, additional resources were required by management in order to maintain the accuracy of system data. The auditor also reported that certain component transactions were tracked manually and were not integrated with the new system. The second significant deficiency addressed FCC information technology controls. The auditors identified deficiencies in the FCC's control environment, control activities, risk assessment process, and monitoring activities as they relate to securing FCC's information technology infrastructure. They also noted that, because the application of information technology is pervasive throughout the FCC, the information technology weaknesses identified may impact the FCC's ability to comply with OMB's internal control objectives for financial reporting. KPMG did not consider any of the deficiencies identified during the audit to be material weaknesses. Management was provided with a draft of the report and in their response to the report management stated they concurred with the report recommendations.

The Commission is responsible for complying with laws, regulations, and provisions of contracts applicable to the FCC. To obtain reasonable assurance as to whether the Commission's financial statements are free of material misstatement, KPMG performed tests of the Commission's compliance with provisions of laws, regulations, and contracts that could have a direct and material effect on the determination of financial statement amounts. The results of this testing identified two instances of non-compliance. First, the Commission was not in compliance with the Federal Managers Financial Integrity Act because the current financial systems and processes do not achieve the financial system integration standards set within GAO Standards for Internal Control in the Federal Government. Second, testing also identified non-compliance with the Debt Collection Improvement Act due to issues with the new system's functionality.

As required by Chapter 4700 of the U.S. Department of the Treasury's Treasury Financial Manual ("TFM"), the FCC prepared special-purpose financial statements for the purpose of providing financial information to the U.S. Department of the Treasury and GAO to use in preparing and auditing the Financial Report of the U.S. Government. Under the oversight of the OIG, KPMG performed an audit of the special purpose financial statements in accordance with GAAS and OMB Bulletin 07-04 as amended. KPMG issued an unqualified opinion on Commission's Special Purpose Financial Statements. The auditor's report disclosed no significant deficiencies in the internal controls over the financial reporting process for the special purpose statements and no instances of noncompliance.

### Performance Audits

Performance audits are systematic examinations that are conducted to assess the performance of a government program, activity, or function so that corrective action can be taken, if appropriate. Performance audits include audits of government contracts and grants with private sector organizations, as well as government and non-profit organizations that determine compliance with contractual terms, Federal Acquisition Regulations ("FAR"), and internal contract



## AUDIT ACTIVITIES

administration.

### **Fiscal Year 2011 Federal Information Security Management Act Evaluation**

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

A key FISMA provision requires that each IG annually evaluate his or her agency’s information security programs and practices. These evaluations must include testing of a representative subset of systems, and an assessment (based on that testing) of the agency’s compliance with FISMA and applicable requirements. To address this requirement, we contracted with KPMG to perform the FY 2011 FISMA evaluation.

During this semiannual period, KPMG completed its evaluation and identified several new findings. Each finding addressed multiple issues. FCC management was provided with these findings and the related recommendations. Management provided their comments and stated that they generally concurred with the recommendations. Our FY 2011 FISMA Report was issued on December 14, 2011.

### **Digital Copier and Scanner Inspection**

The purpose of our inspection was to determine whether the Commission had established policies and procedures to ensure that digital copiers or scanners, when going off lease or being deaccessioned, contained no sensitive, confidential, or personal data. This inspection was conducted based on discussions with Commission staff and management. We also reviewed relevant Commission policies and procedures.

We conducted our inspection under the authority of the Inspector General Act of 1978, as amended, and according to Quality Standards for Inspection and Evaluation, January 2011, issued by the Council of the Inspectors General on Integrity and Efficiency (“CIGIE”).

This inspection found that the Commission has implemented informal processes to address these issues. Our recommendations noted that the Commission should formally document these processes, along with finalizing and updating related policies and procedures. The results of



## AUDIT ACTIVITIES

this inspection were discussed with FCC management and staff knowledgeable with the FCC digital copiers and their comments have been incorporated into this report. The comments received were in agreement with the report's conclusions. This inspection report was issued on October 31, 2011.

### **Compliance Audit of Telecommunications Relay Service Providers**

The TRS fund compensates communications service providers for the costs of providing interstate telecommunications services that enable a person with hearing or speech disabilities to communicate with a person without hearing or speech disabilities. Video Relay Service (“VRS”) is form of TRS that enables persons with hearing disabilities who communicate in American Sign Language to communicate with voice telephone users through video equipment and an interpreter.

#### Audit of Relay Service Data Request Forms

Relay Data Service Requests (“RSDR”) forms are annual submissions by TRS providers that are required by the FCC and used by the TRS Fund administrator for developing and proposing reimbursement rates to the FCC. Providers are reimbursed from the TRS Fund for minutes of service provided at the rates established by the FCC. Reimbursements are made through monthly provider claims that are certified as to their accuracy by senior executives of the TRS service providers.

The National Exchange Carriers Association (“NECA”) administered the TRS Fund from its inception in 1993 until June 30, 2011. NECA received contributions to the fund from all providers of interstate telecommunications services and made disbursements from the fund to eligible providers of TRS. On March 7, 2011, the Commission awarded a contract to Rolka Loube Saltzer Associates, LLC (“RLSA”) to subsequently administer the TRS Fund beginning July 1, 2011. As fund administrator, RLSA duties will include the collection and disbursement of TRS program funds.

The TRS fund has grown substantially since its inception due to the increase in minutes of service reimbursements claimed, but fell sharply for the 2010-2011 fund year. The fund’s initial allotment in 1993 for distributions was \$31 million and increased over the next six years to \$38 million in 1999. After 1999, the fund increased dramatically each year and reached \$891 million in the 2009-2010 Fund year.

In fiscal year 2011, we initiated audits of RSDR forms submitted by the ten TRS providers that were reimbursed for VRS service in calendar years 2008, 2009 and 2010. The purpose of these audits was to determine whether costs and other information that the VRS providers reported to NECA on the RSDRs were in compliance with applicable laws and regulations and supported



## AUDIT ACTIVITIES

by adequate documentation. These audits are now complete.

The audits concluded that the RSDR forms submitted to NECA by the audited providers did not fully comply with rules and orders, RSDR form instructions, and the applicable regulations in Title 47 of the Code of Federal Regulations (CFR), Part 64. Specifically, the audits identified insufficient documentation to support payroll and non-payroll transactions, unallowable expenses included on the RSDRs, inaccurate or missing data on the RSDRs, and inconsistent reporting on the RSDR from one reporting year to the next.

These audits provided recommendations to VRS providers to improve the reliability of costs reported on the RSDR. Additionally, the audits made recommendations to the FCC to ensure the reliability and usefulness of VRS costs reported on the RSDR and to improve the administration of the VRS program.

### Audit of Federal Funds Paid to Telecommunications Relay Service Providers

In fiscal year 2012, we initiated five audits of five VRS providers that received TRS funds in calendar year 2011. The objective of these audits is to determine whether all federal funds reimbursed to these VRS providers were applied in accordance with TRS program requirements and supported by adequate documentation. These audits are now in progress.

### **Universal Service Fund Oversight**

The Universal Service Fund (“USF”) Oversight Team currently consists of the AIG, two Directors, four staff auditors and a Special Counsel for USF. Staff losses have adversely impacted USF oversight activity. We are currently recruiting for two High Cost oversight staff and hope to add additional staff.

### **The USF Program**

The FCC’s USF program includes four principal support mechanisms:

- High Cost support ensures that consumers in all regions of the nation have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas.
- Schools and Libraries support, commonly known as “E-Rate,” provides discounts to assist schools and libraries in the United States to obtain affordable telecommunications and Internet access. The Learning On-the-Go Pilot Program is a pilot program to explore how E-Rate can help schools and libraries offer off-premises wireless access to the Internet.



## AUDIT ACTIVITIES

- Low Income support is designed to ensure that telecommunications services are available to low-income customers at just, reasonable, and affordable rates. Similar programs have existed since at least 1985.
- Rural Health Care support provides reduced rates to rural health care providers for telecommunications services and Internet access charges related to the use of telemedicine and telehealth. The Rural Health Care Pilot Program is a pilot funding program designed to facilitate the creation of a nationwide broadband network dedicated to health care, connecting public and private non-profit health care providers in rural and urban locations.

FCC rules require telecommunications providers of international and interstate telecommunications services to contribute to the USF. This includes providers that offer interstate telecommunications for a fee on a non-common carrier basis, interconnected Voice Over Internet Protocol providers and payphone providers that are aggregators.

### Oversight Activity

#### Schools and Libraries Program

On March 31, 2012, OIG issued a final report on an audit of the Pittsburg Unified School District (“PUSD”). The objective of this performance audit was to determine the District’s compliance with the Federal Communication Commission’s rules and orders governing the Universal Service Fund Schools and Libraries Support Mechanism. This audit was selected from a statistical sample of Schools and Libraries beneficiaries. The audit disclosed PUSD did not comply with FCC rules regarding (1) application matters, (2) procurement and service provider selection matters, (3) asset and inventory records, and (4) receipt of services and reimbursement matters. Based on our findings, we recommend recovery of \$2,153,888 representing the total USF disbursement for Fiscal Years 2008 and 2009.

#### Contributors

On January 17, 2012, OIG issued a final report on SmartResort, Co., LLC. The objective of this performance audit was to determine compliance with FCC rules regarding the reporting of revenue information subject to Universal Service Fund On January 17, 2012, OIG issued a final report on SmartResort, Co., LLC. The objective of this performance audit was to determine compliance with FCC rules regarding the reporting of revenue information subject to Universal Service Fund (USF) contributions on the FCC Forms 499 – A, Telecommunications Reporting Worksheets, for the calendar years ended December 31, 2006 and December 31, 2007.

Our audit disclosed that the Company did not comply with the FCC’s rules regarding Forms 499-A and FCC Forms 449-Q for the calendar years 2007 and 2006. Also, a review of the 2008



## AUDIT ACTIVITIES

Form 499-A, dated March 31, 2010, filed with USAC disclosed that the Company failed to report properly USF surcharge revenues billed to its customers and failed to report uncollectible revenues.

### Low Income Program

On March 31, 2012, OIG issued a final report on the audit of the USF Low Income (“LI”) program disbursement system. The purpose of the audit was to determine whether the LI disbursement system was in accord with applicable law and met the goals of eliminating fraud, waste and abuse in the USF.

We found no evidence that a projection-based system is required or needed. We also found the risk of loss to the LI fund much greater with a projection-based disbursement system. In addition, we identified internal control weaknesses in the projection-based system.

In May of 2011, we discussed preliminary findings, conclusions, and recommendations with FCC representatives. We were informed that FCC already planned to direct USAC to develop a proposal for disbursing USF LI payments based upon *actual* claims. On January 31, 2012, the FCC adopted the proposal to transition to a disbursement system based on actual claims. Since FCC has taken action to replace the projection-based system, we make no formal recommendations and applaud the Commission’s action.

### High Cost Program

Due to staffing losses, no oversight projects were initiated or completed during this reporting period. OIG is currently re-staffing the High Cost team. We do, however, take note of all audit leads from any source. Some leads may be developed into audits at a later date.

### Rural Health Care

Due to staffing constraints, no oversight activity was conducted for the Rural Health Care Program during this reporting period. We do, however, take note of all audit leads from any source. Some leads may be developed into audits at a later date.

## **USF Reform and Oversight Planning**

Reform of the USF programs – High Cost, Schools and Libraries, Low Income, and Rural Health Care – is having a significant impact on OIG’s oversight activities. Balancing the goal of being an agent of positive change and striving for continuous improvement in USF programs with the mission of providing assurance that programs are effective, efficient, and free of fraud, waste, and abuse is a continuing challenge.



## AUDIT ACTIVITIES

To address this challenge, we have initiated a comprehensive vulnerability analysis and risk assessment of the USF program. We are currently gathering and cataloging data on the various USF programs including, but not limited to, previous audit findings, proposed and/or implemented changes in the programs, GAO reports and comments, the USAC Annual Report, results of investigations, and published articles and news items. The first step is to gather and organize what we know (and what we can learn) about each program. Future steps include identification of the areas where a program is vulnerable to fraud, waste, and abuse. Finally, we will assess the risk associated with the vulnerabilities identified. This document will provide us the information and data required for oversight planning and effective use of our limited resources.

### **Other USF Oversight Activity**

#### Improper Payments Elimination and Recovery Act of 2010 Compliance Audit

In accordance with Office of Management and Budget Memorandum for the Heads of Executive Departments and Agencies, M-11-16, dated April 14, 2011, the FCC Office of Inspector General engaged the services of independent certified public accounting firm KPMG LLP to audit FCC compliance with the Improper Payments Elimination and Recovery Act (Pub. L. 111-204) (“IPERA”).

KPMG LLP found that “FCC complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its IPERA compliance, as defined in guidance provided on February 23, 2012 to FCC, for the year ended September 30, 2011.”

In connection with the contract, we attended most if not all of the interviews KPMG conducted as part of its audit; met with KPMG LLP to discuss the audit status and any outstanding issues, reviewed KPMG LLP’s report and related documentation, and made periodic inquiries of its representatives. We issued our report on March 15, 2012.

#### Universal Service Administrative Company – Internal Audit Division

The AIG for USF Oversight meets on a regular basis with USAC’s Internal Audit Division management to share and discuss audit plans, status, and current issues.



## INVESTIGATIONS

OIG investigations cover 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 cases throughout the United States and its territories. These complex 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, and particularly, the Federal Bureau of Investigation (“FBI”).

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

Additionally, the OIG 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 various sources including FCC managers and employees, contractors, program stakeholders, and whistle blowers.

The FCC OIG, 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, 113 cases were pending. Over the last six months, 15 cases have been closed and 13 opened. As a consequence, a total of 111 cases are pending. OIG is making our backlog of cases a priority in this and next fiscal years. These numbers do not include preliminary reviews of allegations, from the Hotline or other sources, or related minor evidence analysis.

#### Statistics

Cases pending as of September 30, 2011	113
New Cases	13
Cases Closed	15
Cases pending as of April 1, 2012	111



# INVESTIGATIONS

## 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 or prosecutions. Thus, many matters could not be considered for inclusion in this summary.

### **Investigations into Fraud in the Federal Universal Service Program**

The bulk of the work of FCC OIG Investigations involves investigating and supporting civil and criminal prosecutions of fraud in the FCC’s federal universal service program. The AIGI and Investigations staff work routinely with other state, local and federal agencies in these matters. These coordinated investigatory and prosecutorial efforts, especially those involving the DOJ and its OIG, 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. Highlighted below, are a few matters that have had public developments during the reporting period:

#### Donna English and Project Managers, Inc.

In December 2010, Donna P. English, d/b/a/ Project Managers, Inc. (“PMI”), pleaded guilty to two counts of wire fraud in violation of 18 U.S.C. § 1343, one count of mail fraud in violation of 18 U.S.C. § 1341, and one count of theft of government funds in excess of \$100,000, in violation of 18 U.S.C. § 641. English had been indicted for defrauding the FCC’s universal service program and the River Forest Community School District located in Hobart, Indiana. English, d/b/a/ PMI, was also charged with theft of the public money she received from the U.S. Department of Housing and Urban Development in connection with her employment as a technology consultant for the Michigan City Housing Authority, located in Michigan City, Indiana.

On October 13, 2011, English was sentenced in the United States District Court for the Northern District of Indiana to a 27 month term of imprisonment, with three years of parole following her release. English was also ordered to provide restitution to the FCC/USAC, the River Forest Community School Corporation and the Michigan City Housing Authority in the amount of approximately \$213,000. English filed a notice of appeal of her conviction and sentence.

This case was investigated by the FCC OIG, the Antitrust Division of the United States DOJ, the United States Department of Education Office of Inspector General, the United States Postal Inspection Service, the Indiana State Police, and the Housing and Urban Development Office of



## INVESTIGATIONS

Inspector General.

### Gloria Harper

On June 2, 2011, Gloria Harper pleaded guilty in United States District Court in New Orleans of participating in a conspiracy to defraud the FCC's universal service program. Specifically, Harper, a former co-owner of Global Networking Technologies, Inc. and former owner of Computer Training Associates, pleaded guilty to participating in a conspiracy to provide bribes and kickbacks to school officials and employees responsible for the procurement of Internet access at schools in Arkansas, Florida, Illinois and Louisiana.

On February 9, 2012, Harper was sentenced to serve 30 months in prison for her participation in the conspiracy. In June 2011, Harper's co-conspirators Tyrone Pipkin and Barrett White were each sentenced to serve one year and one day in prison for their roles in the conspiracy.

OIG assisted in this investigation with the Federal Bureau of Investigation, the Department of Justice Antitrust Division's Dallas Field Office and the U.S. Attorney's office in the Eastern District of Louisiana.

### Jonathan Slaughter

On January 12, 2012, Jonathan M. Slaughter, owner and president of E-Rate Consulting Services, LLC in Montgomery, Alabama, was sentenced in United States District Court in the Middle District of Alabama to 51 months in prison following his guilty plea in September 2011 to one count of mail fraud. Slaughter pleaded guilty to stealing nearly \$900,000 intended for 20 school districts or private schools in 13 states, by fraudulently converting school funds.

OIG assisted in this investigation with the Federal Bureau of Investigation and the Education Office of Inspector General.

### Suspension & Debarment

Following successful prosecutions from OIG investigations, FCC's Enforcement Bureau initiated several suspension proceedings. In November 2011, Barrett White was suspended from participating in the E-Rate program for three years. Tyrone Pipkin was suspended for three years starting in December 2011, and Jeremy Sheets for three years from February 2012. In March 2012, the Commission issued a Notice of Suspension and Debarment Proceedings against Gloria Harper.

## INVESTIGATIONS

### **Investigation into Fraud in the Federal Communications Commission Telecommunications Relay Service**

The OIG is continuing its work with the Criminal Division of DOJ and the FBI on several investigations involving fraud on the FCC's Telecommunications Relay Service ("TRS") Fund program.

The FCC established the TRS program pursuant to section 225 of the Communications Act of 1934, as amended. Section 225 requires the FCC to ensure that TRS is "available to the extent possible and in the most efficient manner to hearing-impaired and speech-impaired individuals in the United States." 47 U.S.C. § 225. TRS permits hearing- or speech-impaired individuals to communicate over the telephone or other telecommunications transmissions by using a trained interpreter called a communications assistant. Private sector entities that are either part of certified state programs or certified by the FCC provide TRS for telecommunications calls to or from hearing or speech impaired individuals and are then compensated through the FCC's TRS program at a rate, set by the FCC, per minute of use as reported monthly by the entity to the FCC's TRS Fund Administrator. The TRS program is funded by assessments on interstate telecommunications carriers that are passed on to consumers through the rates they pay for telecommunications services.

Video Relay Service ("VRS") is a form of TRS that allows individuals with hearing disabilities to use sign language to communicate with voice telephone users through video equipment, a broadband connection, and use of a communications assistant who is a trained video interpreter ("VI"). Until just recently, VRS-related claims on the FCC's TRS Fund increased significantly. 80% of TRS Fund payments are made to VRS providers.

Prosecutions of those indicted in November 2009, on allegations of submitting false or fraudulent claims for reimbursement for VRS were completed during this reporting period. DOJ obtained a guilty plea from the single corporation that was indicted, as well as guilty pleas from, or the convictions of, all but one of the individuals that were indicted. The remaining individual received a pre-trial diversion (probation). During the reporting period, sentencing of the individuals who pleaded guilty commenced. John Yeh and his brother, Joseph Yeh, principals at Viable Communications, Inc., an uncertified provider of VRS, were sentenced to 108 months in prison, followed by 3 years of supervised release, and 55 months in prison, followed by 3 years of supervised release, respectively. In addition, they were ordered to pay, jointly and severally, restitution of \$20 million. Larry Berke was sentenced to 24 months in prison, followed by 3 years of supervised release, and ordered to pay, jointly and severally with convicted co-defendants, restitution of \$2.5 million and to forfeit \$2.5 million. Several other individuals have been sentenced to date receiving varying lengths of probation, some with special conditions such as home confinement and electronic location monitoring. All were ordered to pay restitution.



## INVESTIGATIONS

During the reporting period, OIG worked with the FBI and the DOJ Criminal Division to indict two additional individuals, operating in conjunction with a VRS provider not previously implicated, for defrauding the TRS Fund in connection with the provision of VRS. The indictment alleges that the individuals engaged in fake marketing and outreach schemes, in addition to other methods of pumping the minutes of use for which the provider they were working for was compensated.

The OIG continues to receive and investigate allegations of fraud on the TRS Fund through use of VRS. Although the Commission instituted rules to eliminate the use of “white labels” (entities who are not certified by the Commission to offer VRS service, but do so by contracting their services to certified providers) OIG continues to receive allegations that these entities continue to provide service and may be involved in minute pumping activities.

In addition to working with the Criminal Division of DOJ, OIG is also supporting the Civil Division in the investigation of a Qui Tam case (federal false claims action brought, in the name of the United States by a private citizen, the relator) against AT&T, for allegedly defrauding the TRS Fund in its provision of IP Relay, another form of TRS that allows individuals with hearing disabilities to communicate with voice telephone users through an internet connection and a communications assistant. On March 22, 2012, the government filed its complaint in the case alleging that, by knowingly violating FCC rules, AT&T processed IP Relay calls that were made, not by individuals with hearing or speech disabilities, but rather by hearing individuals, often residing in foreign locations, for the purpose of defrauding merchants.

### **Investigations into Fraud in Recovery Act Funded FCC Contracts**

The American Recovery and Reinvestment Act of 2009 (“Recovery Act”) identified two programs under which the FCC has responsibilities: the Digital-To-Analog Converter Box Program (“DTV”) and a program to develop a national broadband plan. As of March 1, 2012, the Commission had obligated over \$98 million of the Recovery Act funds and had paid out over \$94 million in furtherance of these programs. Of the \$98 million in obligations, \$62 million was obligated for DTV-related contract awards and \$36 million was obligated for contract awards related to development of a national broadband plan.

The OIG has received and continues to receive allegations of fraud, waste, abuse and misconduct in the Recovery Act programs from a variety of sources, including the OIG Hotline, news reports, and the FCC’s Office of Managing Director. Presently, the FCC OIG has 31 active investigations. OIG investigations have revealed indications of fraud, as well as a number of contractual problems including invoice issues and issues involving verification of performance.



## INVESTIGATIONS

The nation-wide DTV transition occurred on June 12, 2009. The digital deadline prompted consumers across the nation to enlist the services of vendors working under contract with the FCC, to provide free in-home installation of converter boxes. Installation vendors performed an estimated 286,000 successful installations nationwide. Installation assistance services ended August 31, 2009. During the weeks surrounding the transition date, the FCC also established DTV information centers throughout the United States, allowing consumers to obtain first hand demonstrations and information about DTV. The FCC has provided thousands of consumers help with their DTV- related questions through the FCC Call Center as well. All Recovery Act-funded DTV activities ceased as of September 30, 2010. The FCC Call Center remains available to help consumers with DTV- related questions, but is no longer funded with Recovery Act funds.

The FCC has also completed its work with regard to the development of a national broadband plan. The goal of the National Broadband Plan was to ensure that all people of the United States have access to broadband capability and to establish benchmarks for meeting that goal. The Plan was publicly released on March 16, 2010, and is available at: [www.broadband.gov](http://www.broadband.gov). Since delivering its plan to Congress, the FCC continues to work with NTIA and the Department of Agriculture to move Recovery Act programs forward.

### NVP

OIG closed a case that had been opened in July 2009 involving allegations that a DTV contractor obtained federal funds by submitting fraudulent invoices to the FCC for work not actually performed under a contract funded by the Recovery Act. After performing site visits and interviewing store personnel where contractor certified its performance on the contract, investigators found no evidence that the contractor performed walk-in/static clinics at the locations it claimed. DOJ and local prosecutors declined federal prosecution of this matter due to the small dollar value. However, the FCC OIG and the Office of Managing Director were able to recover \$14,950 from the contractor, roughly two-thirds of the amount previously paid to the contractor.

### **Internal Affairs**

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

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



## INVESTIGATIONS

### Misuse of Government Equipment

OIG closed a case this reporting period that was referred by the FCC Information Technology Center (ITC) last reporting period. FCC ITC had completed a general search of all FCC network users and determined that an FCC employee had been using unusually large amounts of bandwidth. Based upon the review of the evidence collected in this investigation, OIG determined that the subject of investigation had been involved in extensive, personal, non-worked related use of an FCC computer, use that appeared to go beyond the FCC's policy permitting "limited personal use" of computer systems. FCC OIG concluded its investigation and referred the matter to the Office of Managing Director for action.

### Employee Conducting Non-FCC Business On Official Time and While Teleworking

OIG closed a case this reporting period that was referred by the Office of Managing Director ("OMD") regarding an OMD employee alleged to have been conducting an outside business activity while on official government time. Based evidence collected in this investigation, FCC OIG concluded the subject of investigation had been involved in conducting an outside business activity and doing so while on official government time, including while telecommuting. In fact, the subject admitted to having engaged in such conduct. FCC OIG concluded its investigation and referred the matter to OMD for appropriate action.

### Frequent Visitors

Two investigations that were opened and closed during this reporting period were initiated in response to an anonymous caller to the FCC OIG Hotline. The anonymous caller alleged abuse of frequent visitor badges issued by the FCC. One matter included allegations that a frequent visitor badge holder was gaining unauthorized access to secured workspaces throughout the FCC headquarters. After investigation, OIG determined the allegations were credible and referred this matter to the FCC Security Office for appropriate action. In turn, the FCC Security Office permanently revoked the subjects' frequent visitor badge and access to the FCC.

A second matter involved allegations that a frequent visitor badge holder was accessing the public research center before the reference center opens to the public. After investigation, the OIG determined the allegations were credible and referred this matter to the FCC Security Office for appropriate action. The FCC Security Office adjusted the frequent visitor badge access hours to coincide with the FCC Visitor Hours.

### Denial of Service Attacks by Private Citizen

In December 2010, ITC learned of an apparent 'denial of service' attack on FCC computer systems. The origin of the attack appeared to be several IP addresses belonging to a wireless phone

## INVESTIGATIONS

user. The OIG reviewed all FCC website contact from the subject IP addresses, which totaled several thousand hits, and determined that most of these hits were applications for FCC Registration Numbers. Subsequently, in July 2011, ITC reported to the OIG that the subject also may have hacked into FCC online databases. Working with DOJ attorneys, OIG was able to secure a court order prohibiting the subject from accessing the Commission's systems.

### *Referral from Another Federal Agency*

OIG closed an investigation which had been opened in a prior reporting period in response to a request for assistance from another Federal agency's Office of Inspector General. An anonymous letter alleged that an employee of that agency's OIG was conducting personal business on government time and misusing government equipment and supplies. After reviewing available data and conducting interviews, the FCC OIG determined that the evidence supported a finding that the employee was engaged in conducting an outside business activity while on government time, utilizing government equipment. The employee admitted to having conducted some non-work related activities while on official government time and also admitted to using a government copy machine to make personal copies. FCC OIG referred the matter to the requesting OIG for appropriate action.

In addition to the above-described cases, the OIG also investigated numerous allegations relating to a wide range of internal matters such as use of travel funds, conflict of interest and hiring practices, that did not result in findings requiring further action.

### **Internal FCC Policy Review and Recommendations**

The OIG investigates a variety of matters involving inappropriate use of government equipment, including computers. When conducting such investigations, one of the first steps is to determine if the FCC employee has a signed Rules of Behavior ("ROB") form on file. This is a written acknowledgement by the individual of the appropriate uses of the FCC issued computer. The ROB also acknowledges that computer use is subject to review and that misuse can give rise to disciplinary action. During the reporting period, OIG investigators reviewed ROB forms on file and found that not all Commission employees have signed ROB forms on file. OIG referred this issue to the Office of Managing Director and Information Technology Office for action and follow-up. A complete review of the program to assure that all FCC employees and contractors have completed ROB forms on file will improve the effectiveness and efficiency of operations and compliance with FCC policies and procedures.



# INVESTIGATIONS

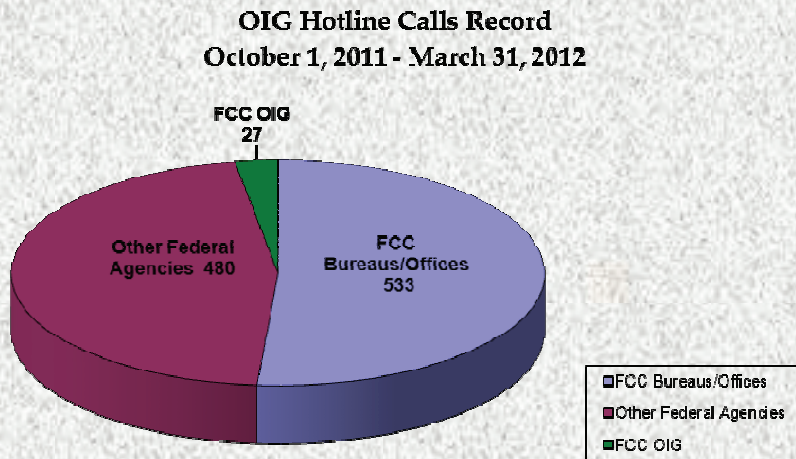
## OIG Hotline

The FCC OIG maintains a Hotline to facilitate the reporting of allegations of fraud, waste, abuse, mismanagement or misconduct in Commission programs or operations. Commission employees and concerned citizens may report such allegations to the Hotline at (202) 418-0473 or toll free at (888) 863-2244 or by e-mail at [hotline@fcc.gov](mailto:hotline@fcc.gov). OIG’s Hotline is available 24 hours a day, seven days a week via a recorded messaging system. The OIG Hotline continues to be a vehicle by which Commission employees and parties external to the FCC can contact OIG to speak with a trained Hotline technician. Callers who have general questions or concerns not specifically related to the missions or functions of the OIG office are referred to the FCC Consumer Center.

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

- (1) open an OIG investigation or audit;
- (2) refer the matter to FCC management for appropriate review and action; or
- (3) refer the allegation to another Federal agency, most often the Federal Trade Commission (“FTC”). For example, complaints about fraudulent sweepstakes are referred to FTC, the nation’s consumer protection agency.

During the current reporting period, OIG received 1,040 Hotline contacts. Of these, 27 were referred to OIG Investigations for possible case openings, 533 were referred to FCC Consumer Center, and 480 were referred to the FTC.



## REPORTING REQUIREMENTS

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

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

*Please refer to the sections of this report titled “Universal Service Fund Oversight” and “Investigations.”*

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

*Please refer to the section of this report titled “Universal Service Fund Oversight” and “Investigations.”*

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

*No significant recommendations remain outstanding.*

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

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

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

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

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

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

7. A summary of each particularly significant report.

*Each significant audit and investigative report issued during the reporting period is summarized within the audits and investigations sections and in Tables I and II of this report.*

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

*The required statistical table can be found at Table I to this report.*



## REPORTING REQUIREMENTS

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

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

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

*No audit reports fall within this category.*

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

*No management decisions fall within this category.*

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

*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.*

Inspector General Reports With Questioned Costs	Number of Reports	Questioned Costs	Unsupported Costs
A. For which no management decision has been made by the commencement of the reporting period.	1	\$2,1538,888	—
B. Which were issued during the reporting period.	1	\$2,1538,888	—
C. For which a management decision was made during the reporting period.	—	—	—
(i) Dollar value of disallowed costs	—	—	—
(ii) Dollar value of costs not disallowed	—	—	—
D. For which no management decision has been made by the end of the reporting period.	1	\$2,1538,888	—
E. For which no management decision was made within six months of issuance	—	—	—

## APPENDIX

### Results of Peer Reviews

As required by Public Law 111-203, we are pleased to report that the OIG of the Equal Employment Opportunity Commission conducted a peer review of this office during the reporting period and its review disclosed no recommendations for any corrective actions. The peer review report, dated August 3, 2010, concluded the system of quality control for the FCC OIG provides reasonable assurance of performing and reporting audits in conformity with applicable professional standards in all material respects and FCC OIG has received a peer review rating of *pass*.

In addition, we completed a peer review of the National Archives and Records Administration (“NARA”) OIG during the reporting period. The peer review report, dated September 22, 2011, concluded the system of quality control for the NARA OIG provides reasonable assurance of performing and reporting audits in conformity with applicable professional standards in all material respects and NARA OIG has received a peer review rating of *pass*.



## **Report fraud, waste or abuse to:**

**Email:      Hotline@FCC.gov**

**Call Hotline:      202 418-0473**

**Or**

**888-863-2244**



**Office of Inspector General  
Federal Communications Commission  
445 12th Street S.W. Room 2-C-762  
Washington, DC 20554  
WWW.FCC.GOV/OIG**