

Office of Inspector General



Semiannual Report to Congress

October 1, 2012 - March 31, 2013

The Federal Communications Commission



(left to right)

Commissioner Jessica Rosenworcel, Commissioner Robert M. McDowell, Chairman Julius Genachowski, Commissioner Mignon Clyburn and Commissioner Ajit Pai.

COVER MEMORANDUM

DATE: March 31, 2013

TO: Chairman, Federal Communications Commission
Commissioner Robert McDowell
Commissioner Mignon Clyburn
Commissioner Jessica Rosenworcel
Commissioner Ajit Pai

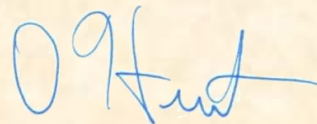
FROM: Inspector General

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 March 31, 2013. 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

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INTRODUCTION

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

The FCC consists of a Chairman and four Commissioners, who are appointed by the President and confirmed by the United States Senate. Julius Genachowski serves as Chairman. Robert M. McDowell, Mignon Clyburn, Jessica Rosenworcel and Ajit Pai 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, District of Columbia ("DC"). 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 Head of the Agency. 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 Inspector General ("DIG"); Gerald Grahe, Assistant Inspector General ("AIG") for Audits; Harold F. Shrewsbury, AIG for Management; Jay C. Keithley, 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, 2012 through March 31, 2013, as well as information on the IG's goals and future plans.

OFFICE OF MANAGEMENT

OFFICE OF MANAGEMENT

Office Staffing

OIG is comprised of 28 Full Time Equivalent (“FTE”) and nine Not to Exceed (“NTE”) term appointed professionals, and six FTE and one NTE support personnel. The staffing needs of this office have been described in the last several Semiannual Reports. Several activities related to staffing, as well as our own plans for the organization of the Office, have occurred in this reporting period.

The OIG operated under a Continuing Resolution for the first two quarters of FY 2013 and is operating under a sequestration the last two quarters of FY 2013. These budget constraints have not significantly impacted the OIG mission due to prior planning. The IG continues hiring additional staff to meet ever demanding operational requirements by reducing budget funds in other areas like contracting, travel and training.

The FCC OIG budget is separate from the agency. This provides the Inspector General the latitude to move funds within the budget while maintaining OIG independence to meet specific and routine mission objectives. The OIG controls funds allocated for compensation and benefits.

Now that OIG has a separate budget allocation rather than being subsumed as a consolidate budget with FCC budget, OIG is instituting procedures to ensure we protect the resources entrusted to us. Our hiring plan expands our resources and staffing and will greatly improve our capacity to meet the expectations of the FCC, Congress and the public. With this in mind we are hiring additional professional staff and administrative support personnel to meet our oversight responsibilities.

In January 2013, the positions of the Assistant Inspector General for Audits (“AIGA”) and the AIG for Universal Service Fund Oversight were merged creating the Office of Audits (“OA”) under the direction of the AIGA. This change simplifies the coordination of the audit functions of the Office.

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

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Information Technology (“IT”) Initiatives

OIG is dedicated to ensuring our staff has the tools they need to accomplish our mission. We are committed to a regular cycle of maintaining and updating our IT systems. The most prominent accomplishments in this area for this reporting period are the initiation of a forensics laboratory and standing up our Case Management System (“CMS”).

Commission employees, contractors and regulatees increasingly rely upon digital media in the performance of their duties. Consequently, effective investigations require the application of sophisticated technical expertise in computer forensics, as well as state of the art IT equipment, in order to examine digital media in a sound forensic environment. OIG keeps pace with this constantly evolving technological environment by supporting computer forensic training for investigators and during this reporting period acquired a computer forensic specialist. Further, OIG is in the process of developing a computer forensics lab that will keep pace with the growth of the Office caseload and meet the needs of an ever more complex, sophisticated operating environment.

Development of our CMS system continues. The system went fully on-line in 2012 and all current investigations are now administered in CMS. The CMS allows the AIGI to oversee and manage all pending cases by keeping abreast of major developments in each investigation. The CMS also provides investigators with a critical tool to maintain their significant case-load in an organized manner. Management, in conjunction with the investigators who now use the system on a daily basis, continues to work with the contractor to fine-tune the system. Over the past year, the CMS program has been improved by adding enhanced reporting capabilities.

The FCC’s CMS is a modification of one developed by the United States Department of the Interior OIG. OIG chose this program over many others because: (1) by being developed by another inspector general’s office, it is already better tuned to our specific needs; and (2) it presented the IG with significant savings in its use and application.

Specifically, this is an Internet based system. Its purpose is to store and track information pertaining to civil, criminal and administrative investigations. It contains information on all investigations initiated by the FCC OIG. The CMS has enabled the Office of Investigations (“OI”) to formalize processes and procedures and provide standardized case files and information.

After logging into the system, investigators are immediately directed to the CMS home screen. It allows the investigator to quickly visualize their current case load under the Case Summary page, as well as use hyperlinks to enter allegations and confidential informant information.

OFFICE OF MANAGEMENT

Locations Search Help session will timeout in 60 minutes

Welcome

Case Management System (CMS)
Version 3.1

[Enter Investigative Allegation](#)
[Confidential Informants](#)
[Log Out of CMS](#)

Case Summary	
Open Cases	0
Open Allegation	0
Case Document Status	

INVESTIGATIVE REMINDERS

The series of dropdown menus at the top of the screen help staff to navigate through CMS.

Locations

Locations

Investigations Home

Case Document Status
Allegations
Enter New Allegation
Confidential Informants
View Reminders

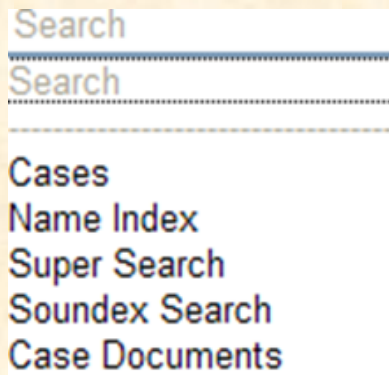
Outreach/Liaison
Downloads

CMS Reports
Staff Members
Administrator Utilities

Logout

Locations allow investigators to access forms under Downloads and review standardized reporting documents under CMS Reports.

OFFICE OF MANAGEMENT



The search options built into CMS allow investigators to find information, including cases, documents and entities easily.

Investigators also have a “My Cases” menu which is separated into three sections. The first allows access to the Case Summary page. The second includes all open cases on which the user is the lead investigator; and the third consists of cases on which the user is an assisting agent.

When OIG receives an allegation, information regarding the allegation must be entered into CMS. Any agent in the OI with access to CMS may log the initial allegation and upload pertinent information. This data will ultimately be reviewed by the AIGI to determine whether or not the allegation should be converted into a case and investigated. Only if the allegation is approved, will it be assigned to an agent as a new case. The system requires investigators to input details, entities, documents, allegations, case staff, and case notes.

A screenshot of the "Enter Investigative Allegation" form. The form has a yellow header with a question mark icon and the title "Enter Investigative Allegation". Below the header, there are several fields for input:

- ★ Title: Planter, Albert
- ★ Allegation Method: E-mail
- ★ Allegation Source: Confidential Source/Informant
- ★ Program Type: External
- ★ State: Georgia
- ★ Received Date: 11/14/2011
- ★ Hotline: No
- ★ Congressional Interest: No

Below these fields is a text area for the summary, containing the text: "An allegation was communicated via e-mail on November 14th, 2011 to the OIG by a confidential informant. The subject involved is identified as Albert Planter, who is accused of Credit Card Fraud and Bribery, in Savannah, Georgia. The victim is identified as Creek Banking. This is an external case." Below the summary is a dropdown menu for "Allegations" with the following options: Bribery, Civil, Conflict of Interest, Contract Grant or Procurement Fraud, and Credit Card Fraud or Misuse. At the bottom of the form is a button labeled "Open Allegation".

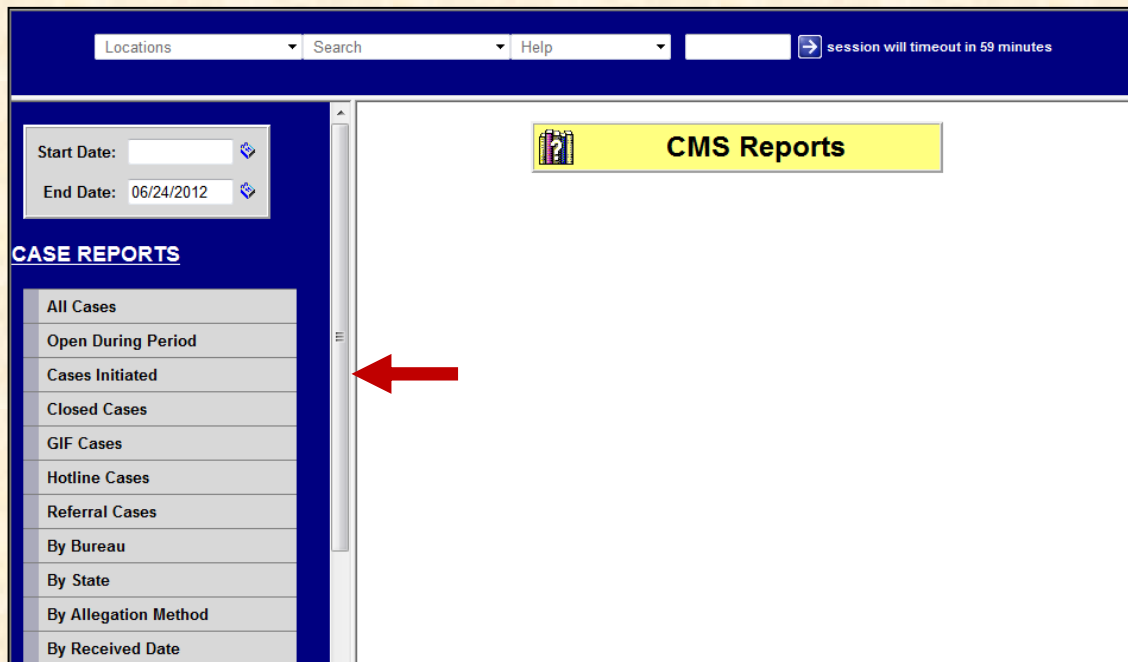
OFFICE OF MANAGEMENT

After an allegation is approved, the investigator is directed to the Case Management section of CMS. The Case Initiation Data section contains basic case information that was entered when the allegation was created. The yellow window at the top identifies the case number, case title, the lead agent, the day the case was opened, and the day the allegation was received. The status indicates that this case is currently open. Managers with access to the system have the ability to view the status of the entire case from their screens. Further, the assigned investigator will have the ability to update the Entities and Activities fields as well as to upload photos, documents, and hypertext links to recordings and other media.

The screenshot displays the Case Initiation Data form within a web application. The interface includes a top navigation bar with 'Locations', 'My Cases', 'Search', and 'Help' menus, and a session timeout warning. A left-hand navigation menu lists various sections: Initiation Data, Entities, Staff, Activities, Related Cases, Joint Inv., Allegations, Criminal Refs., Civil Refs., Admin. Refs., Documents, Photos, Reminders, and Case Notes. The main content area features a yellow header for 'Case Initiation Data' with the following fields: CCN: OIG-X-12-0003, Title: PLANTER, ALBERT, Lead Agent: Robert Johnson, Opened: 11/22/2011, Received: 11/14/2011, and Status: Open-Investigation. Below this is a 'GRAND JURY CASE' checkbox. The form includes dropdown menus for 'Allegation Method' (E-mail), 'Allegation Source' (Confidential Source/Informant), and 'State' (Georgia). It also has fields for 'Congress. Int.' (No) and 'Qui Tam' (checkbox). A 'Summary' section contains a text area with the following text: 'A allegation was communicated via e-mail on November 14th, 2011 to the OIG by a confidential informant. The subject involved is identified as Albert Planter, who is accused of Credit Card Fraud and Bribery in Savannah, Georgia. The victim is identified as Creek Banking. This is an external case. A text document, containing the text from the e-mail in which the allegation was communicated, was uploaded into CMS. The allegation of bribery was later dropped, as the confidential informant recanted this statement on 11/17/2011.' At the bottom, it shows 'Entered By: Clark, Andrew', 'Entry Date: 11/21/2011', 'Last Revision By: Brown, Karen', and 'Revision Date: 11/22/2011'. There are 'Apply Changes' and 'Cancel Changes' buttons, and a 'Case Summary' button at the very bottom.

The CMS Reports function of the system provides a real-time snapshot of the status of cases in the office. Reports can be tailored to track an individual investigator's caseload as well as the closed cases of the entire office. Navigating to CMS Reports in the locations menu directs you to the CMS report generation screen. Much like with Case Management, this screen has a side-bar navigation menu, which includes a comprehensive list of reports that can be generated.

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Using CMS, agents can generate case, activity, criminal, and civil reports. CMS reports are easily editable and the most flexible element of CMS. As a result, reports may be altered to suit users' needs.

Internship Program

OIG welcomes college interns during the fall, spring and summer semesters. OIG currently has one paid intern and two unpaid interns. OIG is supporting the President's Pathway program and plans to hire additional interns, which can be converted to FTE status if their demonstrated performance meets OIG standards. Most of these students take their internships for credit. Our interns have come from schools across the country. These internships have proven to be rewarding experiences for all participants. Students leave with a good understanding of how a government agency operates, and they have the opportunity to encounter challenges while enjoying the rewards that can come from public service. In turn, the Office has benefited from the students' excellent work performance.

Legislative and Policy Matters

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.

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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.

OFFICE OF AUDITS

OFFICE OF AUDITS

Under the authority of the Inspector General Act of 1978, as amended, 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.

In January 2013, the positions of the Assistant Inspector General for Audits (“AIGA”) and the Assistant Inspector General for Universal Service Fund Oversight were merged creating the Office of Audits (“OA”) under the direction of the AIGA. The OA consists of three divisions: Operations, Financial, and Information Technology Division (“OFITD”), Universal Service Fund Oversight Division (“USFD”) and a Special Projects Division (“SPD”).

“OFITD” conducts audits, inspections, evaluations and other reviews of the FCC’s financial management and security, and FCC programs and operations. “USFD” conducts audits, evaluations, inspections, and other reviews designed to prevent and detect waste, fraud, and abuse and to promote economy, effectiveness, and efficiency in the Universal Service Fund (“USF”) programs. “SPD” performs a gamut of projections that ranges from special surveys, reviews and evaluations to policy guidance and legal review and support.

Operations, Financial, and Information Technology Division

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

Completed Audits and Other Projects

Audit of the FCC Fiscal Year 2012 Consolidated Financial Statements

The Chief Financial Officers Act of 1990 (“CFO Act”), as amended, requires the OIG, or an OIG selected independent external auditor, to audit the financial statements in accordance with government auditing standards (“GAGAS”) issued by the Comptroller General of the United States. Under OA direction, KPMG LLP (“KPMG”), an independent public accounting firm, performed the audit of the FCC FY 2012 consolidated financial statements. The audit was conducted in accordance with GAGAS, Office of Management and Budget (“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.

OFFICE OF AUDITS

On November 14, 2012, KPMG issued an Independent Auditors report with an unqualified opinion on FCC's financial statements. The report also identified weakness regarding internal controls over financial reporting and compliance and other matters. Otherwise, KPMG reported that FCC's financial statements were fairly presented in all material respects in conformity with U.S. generally accepted accounting principles.

Identified Weaknesses

- 1) The report on internal controls identified two control weaknesses considered to be significant deficiencies (a significant deficiency is defined as a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.) The first related to inadequate financial system functionality and integration. Although FCC implemented a new financial accounting system in October 2011, continuing functionality issues exist resulting in certain activity continuing to be processed manually to maintain system data accuracy.
- 2) The second identified significant deficiency is related to information technology controls, including deficiencies in the control environment, control activities, risk assessment process, and monitoring activities related to securing the information technology infrastructure. Based on a pervasive use of IT applications throughout the FCC, the information technology weaknesses may impact FCC's ability to comply with OMB internal control objectives for financial reporting. KPMG did not consider any of the deficiencies identified to be material weaknesses. (a material weakness is defined as a significant deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.) FCC management concurred with the report recommendations.

The Commission is responsible for complying with all applicable laws, regulations, and contract provisions. To obtain reasonable assurance of whether the FCC 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. Testing identified two instances of noncompliance. First, the Commission was not in compliance with the Federal Managers Financial Integrity Act since the current financial systems and processes do not achieve financial system integration standards set within GAO Standards for Internal Control in the Federal Government. Second, testing identified non-compliance with the Debt Collection Improvement Act due to issues with the new system's functionality.

OFFICE OF AUDITS

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

Fiscal Year 2012 Federal Information Security Management Act Evaluation

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

OIGs are required to annually evaluate agency information security programs and practices. The evaluations must include testing a representative subset of systems, and an assessment (based on that testing) of the agency’s compliance with FISMA and applicable requirements. OIG contracted with KPMG to perform the FY 2012 evaluation.

During this semiannual reporting period, KPMG completed its evaluation and identified fifteen (15) findings and offered eighty (80) recommendations. FCC management generally concurred with the recommendations. Our FY 2012 FISMA report was issued on December 31, 2012.

Agency Verification of American Reinvestment and Recovery Act Funds Update

The American Recovery and Reinvestment Act of 2009 (“ARRA” or “Recovery Act”) specified two programs under FCC jurisdiction: the Digital-To-Analog Converter Box Program (“DTV”), and the national broadband plan. As of March 2012, the FCC had obligated over \$98 million of Recovery Act funds in furtherance of these programs including \$62 million for DTV-related contracts and \$36 million for contracts related to development of a national broadband plan.

The Recovery Accountability and Transparency Board (“Recovery Board”) requested that agencies review the status of their funds authorized or received under the Recovery Act. The Recovery Board also requested that OIGs assist with coordinating the agency reviews.

OFFICE OF AUDITS

FCC validated the status of Recovery Board reported FCC ARRA obligations identifying differences between Recovery Board data and FCC reported amounts totaling \$12,607,792 (rounded). Of that amount, management noted that \$3,621,416 reported by the Recovery Board as unexpended as of December 31, 2012, was transferred back to Treasury and \$8,986,376 reported as expired by the National Telecommunications Information Agency was returned to Treasury.

The OA review of the validation of FCC ARRA funds was limited to management inquiries related to confirming the accuracy of reported ARRA appropriations and obligations; methodology used for identifying expired or expiring funds; and reviewing documentation supporting management's corrections to the Recovery Board reported obligations. Our report, dated March 8, 2013 did not identify any errors or other deficiencies in FCC management's procedures for confirming and correcting the balances for ARRA appropriations, transfers, obligations and expired funds.

Inspection of Jobs Created by American Reinvestment and Recovery Act Funds

The OA performed an inspection of the reporting of job creation data by FCC contractors in accordance with the Recovery Act. Section 512 of the Recovery Act and OMB guidance require recipients (such as contractors) and subrecipients (such as subcontractors) of federal assistance awards to report on the nature of projects and the number of jobs created or retained using Recovery Act funds. 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," issued January 2011 by the Council of the Inspectors General on Integrity and Efficiency.

Recipients had to report this information on-line quarterly to FederalReporting.gov, a nationwide data collection system created and managed by OMB and the Recovery Board. To provide transparency of the use of Recovery Act funds, reports are made available to the public on the Recovery.gov Web site and individual agency Web sites.

Approximately \$71 million in Recovery Act funds was transferred to the FCC for consumer education and outreach related to the transition from analog to digital television. The majority of the FCC Recovery Act funds were paid to contractors to fulfill the FCC's responsibility under the DTV transition. The inspection of supporting documentation from four contractors disclosed the following:

- 1) One contractor supported and calculated the number of jobs created or retained according to the Recovery Act and OMB guidelines; accurately tracking employee hours worked with a time recording system developed by the FCC to monitor contract work.

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- 2) One contractor had no data to support the number of jobs reported as created or retained by contracts funded with Recovery Act dollars. The prime contractor did not collect data from subcontractors (who performed a majority of the work) to accurately calculate the number of jobs created or retained by Recovery Act funds.
- 3) Two contractors submitted data with material errors and omissions; therefore, the OA could not determine the accuracy of the reported job data.

Management comments concurring with the report's conclusions were incorporated into the final report, dated October 16, 2012.

In-Process Audits and Other Projects

Audit of the FY2013 Consolidated Financial Statements

During this semiannual reporting period, OA initiated the FY 2013 FCC Financial Statement audit and FISMA. The objective of the audit is to provide reasonable assurance as to whether the agency's financial statements are presented fairly in all material respects. Other objectives are to provide an assessment of the internal controls over transaction processing for accurate financial reporting and compliance with applicable laws and regulations. The audit is being performed by KPMG under the direction of the OA in accordance with GAGAS, OMB Bulletin 07-04, as amended and applicable sections of the GAO/PCIE Financial Audit Manual.

Sole Source Contracts Inspection

The OA is conducting an inspection of the FCC's award and administration of sole source contracts. The scope includes contracts awarded in FY 2011 and 2012. Objectives are to:

- 1) Determine if sole source contracts were awarded (scope to include pre-solicitation, solicitation, evaluation, award, and administration) in accordance with provisions of the Federal Acquisition Regulation, FCC policies and procedures; and
- 2) Evaluate the adequacy of the design and implementation of internal controls related to the award of sole source contracts.

We anticipate issuing our final report during the next semiannual reporting period.

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Website Security Assessment

The FCC Website Security Assessment objectives include:

- 1) Evaluate the adequacy and effectiveness of the controls over the FCC's website environment, related directives, policies, and procedures;
- 2) Determine compliance with the National Institute of Standards and Technology guidance regarding website management and security, including security in public cloud computing.

Our assessment is being conducted under the authority of the Inspector General Act of 1978, as amended and will be completed during the next semiannual reporting period.

Audit of the FCC Red Light Rule: Debt Collection

OA has contracted through the Small Business Administration an independent public accounting firm Lani Eko and Company ("LEC") - a small set-aside business to perform an audit of the FCC's Red Light Rule, part of FCC's debt collection effort, for fiscal years 2011 and 2012. Audit objectives include:

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

Audit of FCC Management and Protection Of Information Associated with Social Media

OA has contracted with LEC to perform an audit to determine if FCC properly protects and manages information associated with social media use, including Personal Identifiable Information ("PII"). Audit objectives include:

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

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Audit of the FCC Administrative Operations

OA contracted with LEC for a performance audit of the FCC Administrative Operations (“FCC AO”). FCC AO has seven components: Administrative Service Center, Health & Safety, Facilities, Contracts & Purchasing, Printing and Graphics Center, Security Operations Center, and the Space Management Center. Audit objectives include:

- 1) Identify and assess the adequacy and the effectiveness of the controls over certain aspects of FCC AO; and
- 2) Determine the adequacy of and compliance with FCC rules, related directives, policies, and procedures; and determine FCC compliance with federal guidance regarding administrative operations.

Audit of the FCC Information and Technology Center Compliance with OMB Circular A-130

OA contracted with LEC to perform an audit to determine whether the FCC is complying with requirements of OMB Circular A-130, Management of Federal Information Resources, as revised. The Circular requires agencies to establish and maintain an integrated Information Technology capital planning and investment control process. The audit began in February and LEC is currently in the planning phase.

Audit of the FCC Civil Monetary Penalties

OA contracted with LEC to audit FCC management practices for initiating, tracking and collecting civil monetary penalties. Audit objectives include:

- 1) Identify and assess the adequacy and the effectiveness of FCC controls over the management of Civil Monetary Penalties; and
- 2) Determine the adequacy of and compliance with FCC’s rules, directives, policies, and procedures; and determine FCC compliance with OMB, Treasury, and other federal government guidance regarding collections.

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

OA is conducting an inspection of FCC’s purchase and travel card program to follow-up on findings from a 2010 OIG audit. Field work is complete and the report is being prepared. The inspection will determine whether policies and procedures have been implemented to address deficiencies reported in the June 23, 2010 audit report and evaluate the adequacy of the design and implementation of related internal controls.

OFFICE OF AUDITS

Audit of 2011 Federal Funds Paid to Telecommunications Relay Service Providers

The Telecommunications Relay Service (“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.

VRS providers are compensated from the TRS fund for minutes of service provided, at the rates established by the FCC. The TRS fund has grown substantially since its inception due to the increase in minutes of service compensation claimed, but fell sharply for the 2010-2011 fund year. The fund’s initial allotment in 1993 for distributions was \$31 million and has increased over the next six years to \$38 million in 1999. After 1999, the fund increased approximately 50-80 percent each year until it reached \$891 million in the 2009-2010 fund year. The fund size fell sharply to \$739.3 million for the 2010-2011 fund year and \$711.4 million in 2012-2013.

OA contracted with independent public accounting firm, CliftonLarsenAllen (“CLA”) for performance audits of five VRS providers. Objectives are to determine whether all federal funds paid in 2011 were applied in accordance with TRS program requirements and supported by adequate documentation, and to follow-up on prior year audit findings. The audit report for one VRS provider, Sorenson Communications Inc., was published during the prior semiannual reporting period. The field work for the remaining four audits is complete and the audit reports are being prepared for publication.

Audit of 2012 Federal Funds Paid to Telecommunications Relay Service Providers

The Office of Audits contracted with CLA for performance audits of five VRS providers. Audit objectives include:

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

Audit of VRS Providers Relay Service Data Request Projections

The Office of Audits contracted with LEC for performance audits of VRS providers cost and minutes of service projections included in annual data submissions. Audit objectives include:

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- 1) Determine the basis of the calculations used to arrive at projections included in the Relay Service Data Requests (“RSDR”) forms submitted for rate setting purposes and;
- 2) Determine if the costs supporting the projections were allowable, reasonable and based on relevant historical and pertinent information.

The scope of the audit includes cost and minutes of service projections for program years 2008 through 2012.

Audit of the TRS Fund Administrator

The Office of Audits contracted with LEC for a performance audit of the TRS Fund Administrator for the period from March 7, 2011 through September 30, 2012. Audit objectives include:

- 1) If the Administrator designed and implemented adequate internal controls to safeguard the fund’s assets; and
- 2) Whether the following fund administration responsibilities are being effectively performed:
 - Collecting money for the TRS Fund
 - Developing compensation rate recommendations
 - Determining the annual TRS Fund size and Carrier Contribution Factor
 - Making payments to the TRS providers
 - Advising the FCC on cost recovery issues

This audit should be completed during the next semiannual reporting period.

Universal Service Fund Oversight Division

The Universal Service Fund Oversight Division (“USFD”) conducts audits, evaluations, inspections, and other reviews designed to prevent and detect waste, fraud, and abuse and to promote economy, effectiveness, and efficiency in the Universal Service Fund (“USF”) programs including the following:

The High Cost Program helps to ensure that consumers across the country pay rates for telecommunications services that are comparable to those available in urban areas. In 2011, over 1,900 eligible telecommunications carriers received approximately \$4 billion, which benefits Americans living in remote or rural areas.

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The Schools and Libraries Program, often called “E-Rate,” provides discounts to help schools and libraries in every U.S. state and territory secure affordable telecommunications, Internet access, basic maintenance, and internal connections. Over 21,000 eligible applicants benefited in Funding Year 2011, receiving approximately \$2.2 billion, bringing telecommunications and Internet services to millions of students and library patrons.

The Low Income Program helps eligible low-income consumers establish and maintain telephone service by discounting services provided to them by local telephone companies. Over 13.7 million low-income households throughout the nation benefited from 2011 program payments of approximately \$1.75 billion.

The Rural Health Care Program provides reduced rates to rural health care providers including mobile health centers, hospital pharmacies, and medical training institutions for telecommunications and Internet services necessary for providing health care. Over 3,000 health care providers received approximately \$81million in support in CY 2012. The Pilot Program supports the development of advanced networks to support telemedicine services.

Contributors. OIG is also responsible for providing oversight of USF receipts collected from telecommunications providers of international and interstate telecommunications services referred to as contributors.

The USFD is organized into three operational teams including (1) High Cost, (2) Contributors/Low Income, and (3) Schools and Libraries/Rural Health Care. Highlights of Work conducted by the USFD during the current semiannual reporting period are provided below.

Compliance Assessment Program Overview

As part of the USFD effort to ensure beneficiary and participant compliance with USF programs regulations and to evaluate effectiveness of the programs, OA is continuing the Compliance Assessment Program (“CAP”) discussed in our last semiannual report to evaluate compliance, efficiency, and effectiveness of USF programs. CAPs are conducted in accordance with the “*Quality Standards for Inspection and Evaluation*” issued by the Council of the Inspectors General on Integrity and Efficiency. These inspections are performed consistent with OIG authority, for example, under sections 2(1) and 4(a) (1) of the Inspector General Act of 1978, as amended. CAPs are not intended as a substitute for any agency regulatory compliance review or regulatory compliance audit. Currently CAPs are being used for the High Cost and Schools & Libraries programs.

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Completed Audits and Other Projects

Contributors/Low Income Program

Two Low Income program survey reports were issued during the semiannual reporting period: CenturyLink and Surewest Telephone.

Our CenturyLink report, issued January 9, 2013, disclosed that no instances of noncompliance with the FCC's Low Income program rules but did disclose a small number of potentially duplicate lifeline accounts for subscribers at the same apparent address that we referred to the Company for possible corrections.

Our Surewest Telephone report, issued February 21, 2013, disclosed no significant instances of non-compliance with FCC's Low Income program rules but did disclose a minor issue in which the Company did not maintain documentation for a small percentage of its subscribers that voluntarily opted for toll limitations.

Schools and Libraries/Rural Health Care Programs

On December 10, 2012, we issued our compliance audit report of Hampstead Hill Elementary School ("HHES"), a Baltimore City MD public charter school. Our audit disclosed that HHES did not comply with FCC rules related to (1) procurement matters, (2) reimbursement matters, (3) record retention and (4) assets and inventory records relative to disbursements made during funding years (FYs) 2008 and 2009. HHES did not retain adequate documentation to determine compliance with competitive bidding requirements. Some E-Rate funded equipment could not be located and documentation to support whether basic maintenance charges billed were for eligible components. We recommended FCC recovery of FYs 2008 and 2009 disbursements totaling \$292,444. We also recommended that HHES improve policies and procedures related to documentation and record-keeping.

In-Process Audits and Other Projects

Review of 16 High Cost Incumbent Local Exchange Carriers

On December 6, 2012, announcement letters were sent to 16 high cost Incumbent Local Exchange Carriers ("ILEC") including a request for data necessary to initiate the survey phase of our focused inspections. Major focus areas include, but are not limited to:

OFFICE OF AUDITS

- 1) Reasonableness of USF High Cost disbursements.
 - Costs outside of study area included in USF (may be limited exceptions)
 - Affiliate transactions rules followed
 - Regulated/non-regulated cost assignment rules followed
 - Depreciation methods
 - Other reasonableness tests
- 2) Reasonableness of interstate special access revenue requirements in light of changes from the Transformation Order.

Contributors/Low Income Program

The following USF Low Income program draft reports were issued during the semiannual reporting period: Affordable Home Phones, Easy Telephone Service, and Absolute Home Phones. Draft reports were provided to auditees to obtain comments on preliminary findings. We anticipate issuing final reports during the next semiannual reporting period. All of our Low Income compliance audits also include limited tests of the Company's FCC Forms 499-A, Telecommunications Reporting Worksheet to test the reasonableness of the revenues reported for USF contributions. Other Low Income audits in process during the period include:

- 1) Budget Prepay, Inc.
- 2) Mextel Corporation
- 3) Fast Phones (AL, NC)
- 4) Flatel (FL)
- 5) Michigan Bell Telephone (MI)
- 6) Nexus Communications, Inc. (GA, IL, LA, MS)
- 7) Puerto Rico Wireless (PR)
- 8) United Telephone of the NW (WA)
- 9) Virgin Mobile (FL, MI, NC, NY)

Review of the FCC/USAC Lifeline Verification Process

During this reporting period, OA initiated a review of the Universal Service Administrative Company ("USAC") process to identify and resolve duplicate Low Income subscriber accounts, describing potential improvements to the process and including a list of additional analysis to be performed.

In 2011, the FCC issued the Duplicative Lifeline Payments Order (FCC-11-97) directing USAC to identify and correct duplicate Lifeline subscriber accounts. The process, called In-depth Data Validations, compares subscriber listings obtained from selected Lifeline providers in a given state. USAC has reviewed 9.4 million subscribers and found that

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9.6 percent or about 900,000 subscribers have more than one Lifeline account. Over 150,000 subscribers were found to have three or more accounts, with some having as many as 11 accounts.

Our plans for the coming reporting period include determining:

- 1) Whether appropriate action is taken when subscribers are found with multiple accounts. The same guidance is used to resolve situations where a subscriber is found to have two Lifeline accounts as subscribers found with three or more Lifeline accounts. We believe subscribers found with greater numbers of duplicate Lifeline accounts indicates potential fraudulent actions.
- 2) Whether penalty of perjury warnings given to subscribers are effective. The current warning on the Lifeline application, USAC correspondence, and FCC Enforcement Bureau letters to subscribers with multiple accounts may not be effective to reduce abuse.

Schools and Libraries/Rural Health Care Programs

During this semiannual reporting period OA completed the Perry Street Preparatory Public Charter School CAP and issued a draft report to the school for comment. We expect to issue the final report during the next semiannual reporting period.

Contracted Audits of USF Programs

OA is currently developing a contract vehicle, Basic Purchase Agreement ("BPA"), for performing fifty-eight USF Program audits over the next five years. The BPA will be for a base year and four option years. The BPA is scheduled to be completed during the next semiannual reporting period.

The BPA will be used by the Office of Audits to select several large, medium, small and small disadvantaged businesses for competing for USF Program audits in all programs including Contributors. The audit firm demonstrating the best technical solution and best price will be awarded audit contracts. The BPA is being funded from OIG funds transferred from the USF in FY 2008.

Special Projects Division

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

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Completed Projects

Internal Review of OIG Audit Policies and Procedures

The AIGA chartered a Process Action Team (“PAT”) to review OA policies and procedures for performing GAGAS compliant audits. The PAT used the Guide for Conducting External Peer Reviews of the Audit Organizations of the Federal Offices of Inspector General to conduct their review. Procedures included staff interviews, questionnaires and an evaluation of existing policies and procedures.

The review found that policies were generally in compliance with GAGAS, but needed some updating and improvement. Recommendations included clarification of specific sections of the audit manual and improving monitoring to ensure GAGAS updates are addressed and communicated to the staff.

House Commerce Committee Subcommittee On Communications and Technology Hearing

On February 27, 2013, OA staff monitored the House Commerce Committee Subcommittee on Communications and Technology Hearing, “Is the Broadband Stimulus Working?” The hearing was held to examine the status and effectiveness of the approximately \$4.7 billion provided to NTIA as part of the American Recovery and Reinvestment Act of 2009 (Recovery Act), enacted four years ago. It mandates an OIG role for monitoring the use of the funds to prevent fraud, waste, and abuse.

U.S. Senate Commerce Committee Hearing on FCC Oversight

OA staff attended the U. S. Senate Commerce Committee’s FCC Oversight Hearing March 12, 2013. Topics included a discussion on the need to ensure protection against fraud and abuse as part of the expansion of Broadband and an expansion of the E-Rate program that would additionally provide schools now eligible for USF funding with both expanded access to and transfer of data. Specific areas and points of interest to OA included:

- 1) E-rate 2: Senator Rockefeller said that he favors creation of an E-Rate 2 program that would focus on data so that USF eligible schools would be able to catch up to the growing need for data access and transfer.
- 2) Future Hearings on Communications Markets: Chairman Pryor announced a future hearing with no specific coverage except that two principles should govern:
 - A. Investment support for Broadband and
 - B. Consumer confidence in privacy, and protection against fraud and abuse.
- 3) Connect America Fund: Chairman Genachowski described the first phase of CAF funding and assured Senator Pryor that FCC is on schedule for the next phase.

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In-Process Projects

Review and Update of OIG Audit Manual

During this reporting period, OA initiated a review of the Audit Manual to ensure compliance with the latest GAGAS requirements and currency as it relates to Office of Audits practices. This project builds on recommendations of the previously discussed PAT project. In preparation for our upcoming peer review, OIG will issue an interim updated manual as of March 31, 2013. OIG plans to issue a completely revised and updated manual during the next reporting period.

Performance Audit of FY2012 FCC Compliance with the Improper Payments Elimination and Recovery Act of 2010

OIG continued to carry out its responsibilities under Pub. L. 111-204, the Improper Payments Elimination and Recovery Act, as amended (“IPERA”). In accordance with OMB guidance, Memorandum for the Heads of Executive Departments and Agencies, M-11-16, dated April 14, 2011, the OIG engaged KPMG to review FCC compliance with IPERA.

On February 27, 2013, the Office of the Managing Director (“OMD”), issued an *Erratum* in the nature of an amended 2012 Annual Financial Report. By its timing that issuance affects the schedule under which the OIG will submit the results of its agency compliance determination as specified in OMB Guidance.

During this semiannual reporting period, Office of Audits staff regularly met with KPMG staff reviewed periodic Payment Quality Assurance reports used to implement IPERA, and attended meetings and interviews.

Congressional Request - Bicameral Task Force on Climate Change

The co-chairs of the House Bicameral Task Force on Climate Change directed OIG to assess FCC action in response to legislation, regulation, executive orders, and other directives pertaining to climate change. These include, but are not limited to, the Energy Independence Security Act of 2007, and Executive Order 13514. Specifically, OIG was asked to report the following:

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- 1) Existing requirements in legislation, regulation, executive order, and other directives pertaining to climate change that apply to the FCC.
- 2) A detailed list of what, specifically, the FCC has done in order to comply with the requirements referenced in item 1.
- 3) What authority the FCC has to take steps to reduce emissions of heat-trapping pollution?
- 4) What authority the FCC has to make the nation more resilient to the effects of climate change?
- 5) The most effective additional steps the FCC can take to reduce emissions or strengthen resiliency?

An initial meeting was held with FCC representatives on March 26, 2013 and the OIG interim response was provided to Congress on March 29, 2013 describing the project plan and preliminary information received. We will issue our final response during the next reporting period.

OFFICE OF INVESTIGATIONS

OFFICE OF INVESTIGATIONS

OIG OI 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 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, and particularly, the Federal Bureau of Investigation ("FBI").

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

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

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

Activity During This Period

At the outset of this reporting period, 82 cases were pending. Over the last six months, 28 cases have been closed and 29 opened. As a consequence, a total of 83 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 October 1, 2012	82
New Cases	29
Cases Closed	28
Cases pending as of March 31, 2013	83

OFFICE OF 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, including criminal prosecutions, and without divulging investigative techniques. Thus, many matters could not be considered for inclusion in this summary.

Investigations into Fraud in the Federal Universal Service Program

The bulk of the work of OI involves investigating and supporting civil and criminal investigations/prosecutions of fraud in the FCC's federal universal service program and TRS programs. 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 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. Some of our matters that have had public developments during the reporting period are highlighted below.

Civil Settlements and Criminal Convictions

A civil False Claims Act case arising from an investigation into corruption at the Houston Independent School District ("HISD") is set to go to trial May 7, 2013 in a Houston, Texas federal court. Larry Lehmann, the defendant in the civil suit, admitted in a 2008 deposition to providing loans to two separate HISD assistant superintendents for technology, Laura Palmer and William Edwards.

The investigation has already resulted in civil settlements with HISD and Hewlett-Packard, as well as criminal convictions of Dallas Independent School District's chief technology officer, Ruben Bouchot, and Lehmann's business partner, Frankie Wong.

The civil complaint alleges that, in addition to providing improper gifts and gratuities, Lehmann knowingly submitted and caused to be submitted false claims, false records, and false statements in order to obtain payments from the E-rate Program for work performed at HISD for ineligible services.

In particular, Lehmann orchestrated a plan whereby HISD staff who worked on E-rate and non-E-rate projects would be hired by Lehmann's company, Acclaim Professional Services. These outsourced employees were billed to the E-rate program while continuing to work at HISD as de facto HISD employees.

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Lehmann and his partners made the provision of these outsourced employees' costs contingent on winning E-rate contracts at HISD. The E-rate program does not reimburse for school employee labor costs.

Investigation into Fraud in the Federal Communications Commission Telecommunications Relay Service

OI 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. Please see the "Audit of 2011 Federal Funds Paid to Telecommunications Relay Service Providers" section of this report (page 20) for a definition of the TRS/VRS program.

Sentencing of those indicted during the initial round of indictments in November 2009, as well as those indicted subsequently, on allegations of mail and wire fraud, conspiracy, and submitting false or fraudulent claims for reimbursement for VRS completed during previous reporting periods, remains ongoing. On October 16, 2012, Benjamin Pena, the only individual indicted who did not enter a plea and who was found guilty by a federal jury on five of six counts in June, 2010, was sentenced to 55 months imprisonment and three additional years of supervised release. Mr. Pena was also ordered to pay restitution in the amount of \$1,280,000.

In addition to working with the Criminal Division of DOJ, OIG is also continuing its support of 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. The government's complaint in intervention alleges that, by knowingly processing, and claiming compensation for, calls by hearing fraudsters, often residing in foreign locations (e.g., Nigerian Scam Calls), AT&T submitted false claims under the federal False Claims Act. The parties are actively litigating the matter.

The OI also continues to follow the Commission's on-going TRS reform-related work, including efforts to reform services that are seeing a significant spike in usage, such as IP Cap-tel, a service intended to assist individuals with hearing loss by allowing them to listen to the spoken word while simultaneously reading captions of what is being spoken.

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Investigations into Fraud in Recovery Act Funded FCC Contracts

OI has received allegations of fraud, waste, abuse and misconduct in the American Recovery and Reinvestment Act of 2009 (“ARRA” or “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 closed 26 investigations and has five remaining active investigations pertaining to misconduct in the Recovery Act programs. OIG investigations have revealed fraud, as well as a number of contractual problems including invoice issues and verification of performance.

Examples of DTV-related allegations received and investigated by OIG include:

- 1) Submission and payment of claims for compensation when work was not performed; and
- 2) Failure of contractor to submit timely and accurate invoices in accordance with the terms of their contract; and
- 3) Improper invoicing by subcontractor to the FCC.

Eric B. Jenkins, President of PrimeX Technology, Inc.

On February 22, 2013, in the United States District Court for Arizona, Eric B. Jenkins, President of PrimeX Technology, Inc., plead guilty to one count of Transactional Money Laundering in connection with claims for compensation in the Recovery Act/DTV In-Home Converter Box Installation Services program.

Mr. Jenkins and his company were awarded two converter box installation contracts: one contract called for PrimeX to complete 10,000 Basic Installations for an overall contract value of \$650,000; the other called on PrimeX to complete 1,000 Expert Installations for an overall contract value of \$78,000.

PrimeX submitted seven invoices to the FCC claiming it had completed 7,594 basic installations and 550 expert installations and demanded a total of \$536,510 in payment. The FCC accepted five of the invoices and remitted \$493,610 to PrimeX as payment for the claimed installations. The FCC refused to accept the other two invoices, however, after discrepancies arose.

The OI investigation revealed that all seven invoices and the supporting information were false. In fact, none of the claimed installations ever occurred.

The sentencing will occur in the summer 2013. The OI assisted in this investigation with the U.S. Attorney’s Office in the District of Arizona and the FBI.

OFFICE OF INVESTIGATIONS

Internal Affairs

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

In conducting investigations during the past several years, OI has sought assistance from and worked jointly with other law enforcement agencies, including other OIGs, the FBI, the Federal Trade Commission (“FTC”), the Department of Homeland Security, the Securities and Exchange Commission, the Internal Revenue Service, National Archives and Records Administration, and the Recovery Accountability and Transparency Board as well as state agencies.

During this reporting period, the OI, Internal Affairs Division opened 10 cases and closed 24 cases, including eight involving Recovery Act funds. In total, the division has 33 open cases.

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

Contracting Improprieties, Misuse of Position, and Abuse of Authority by FCC Senior Employee

In June 2012, an FCC manager notified OI of possible contracting Improprieties and other inappropriate behavior related to a senior FCC employee. These allegations included: misuse of network access; receipt of kick-backs or bribes; improper contracting practices, including “steering” contracts and asking contractors to perform “out of scope” work; and creating a hostile environment. The hostile work environment allegations were referred to the Office of Managing Director, Office of Security.

Over several months, OI conducted numerous interviews of contractors and federal employees to look into these allegations. The investigation took additional time to complete, as it was difficult scheduling interviews with several of the contractors and employees and because several contractors were reluctant to meet with OIG investigators (out of fear the manager involved would retaliate). OIG found that, while the manager’s conduct caused some contractors to think kick-backs might have been requested, none, in fact were, and no kickbacks were paid. OIG concluded there was no evidence of fraud or waste.

OFFICE OF INVESTIGATIONS

Recovery of Auction-Related Licensing Fees

An engineering consultant to media licensees complained to OIG that the Commission (the Media Bureau) was discriminating against some of the consultant's clients by requiring them to pay auction-related licensing fees, while returning such fees to other similarly situated auction winners/ licensees. The OI investigation found there was in fact inconsistent assessment of fees on media licenses. However, during this reporting period, the Media Bureau, with input of the FCC's Office of General Counsel, began the process to end the inconsistencies. In light of the Media Bureau's corrective efforts, OI closed its investigation.

Senior Level FCC Employee Misuse of Leave

OI concluded an investigation into a former senior level employee who allegedly misused advanced sick leave, annual leave, and Family Medical Leave ("FMLA") to pursue outside employment while at the FCC. The investigation revealed that the former employee had used a total of 236 hours of advanced sick leave, including FMLA leave, before leaving the Commission and had engaged in outside employment while at the Commission. The OI investigation revealed that the employee's outside employment had been appropriately disclosed and approved. While it appeared the employee and some Bureau personnel may have stretched the boundaries of leave available under the FMLA, OI determined that all leave advanced prior to the employee's leaving was reimbursed in full and the matter was closed.

OFFICE OF INVESTIGATIONS

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.

Consumers who have general questions 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). The CGB develops and implements the Commission's consumer policies, including disability access. The FCC Consumer Center accepts public inquiries, informal complaints, and questions regarding cable, radio, satellite, telephone, television and wireless services.

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

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

During the current reporting period, OIG received:

- 1) 752 Hotline contacts. Of these, 21 were referred to OI for possible case openings;
- 2) 379 were referred to FCC Consumer Center; and
- 3) 352 were referred to other agencies including the FTC.

REPORTING REQUIREMENTS

REPORTING REQUIREMENTS

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

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

Please refer to the sections of this report titled "Office of Audits" and "Office of Investigations."

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

Please refer to the section of this report titled "Office of Audits" and "Office of 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 "Office of 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.

REPORTING REQUIREMENTS

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

Each audit report issued during the reporting period is listed according to subject matter and described in the "Office of Audits" 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.

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.

9. Statistical tables showing the total number of audit reports with recommendations that the fund is 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.

REPORTING REQUIREMENTS

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.

Table I: OIG Reports With Questioned Costs

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.	–	–	–
B. Which were issued during the reporting period?	1	\$292,444	–
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	\$292,444	–
E. For which no management decision was made within six months of issuance.	–	–	–

APPENDIX

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 on August 3, 2010. Its review disclosed no recommendations for any corrective actions. The peer review report 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.

**Office of Inspector General
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Report fraud, waste or abuse to:

**Email
Hotline@FCC.gov**

**Call Hotline
202-418-0470
888-863-2244**