

Office of Inspector General



Semiannual Report to Congress

April 1, 2013 - September 30, 2013

THE FEDERAL COMMUNICATIONS COMMISSION



Left to Right: Commissioner Jessica Rosenworcel, Acting Chairwoman Mignon Clyburn and Commissioner Ajit Pai.

COVER MEMORANDUM

DATE: September 30, 2013

TO: Acting Chairwoman Mignon Clyburn,
Federal Communications Commission
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 September 30, 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

TABLE OF CONTENTS

INTRODUCTION	5
OFFICE OF MANAGEMENT	6
Office Staffing.....	6
Information Technology (“IT”) Initiatives.....	6
Internship Program.....	7
Legislative and Policy Matters.....	7
OFFICE OF AUDIT	9
Operations, Financial, and Information Technology Division.....	9
Completed Audits and Other Projects	9
In-Process Audits and Other Projects.....	10
Universal Service Fund Oversight Division	13
Completed Audits and Other Projects.....	15
In-Process Audits and Other Projects.....	17
Special Projects Team	17
Completed Projects and Assignments	17
In-Process Projects and Assignments.....	18
OFFICE OF INVESTIGATIONS	19
Activity During This Period.....	19
Statistics.....	19
Significant Activities	19
Internal Affairs.....	22
Office of Inspector General Hotline.....	23
REPORTING REQUIREMENT.....	25
APPENDIX.....	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.

The FCC consists of a Chairwoman and four Commissioners, who are appointed by the President and confirmed by the United States Senate. Mignon Clyburn serves as Acting Chairwoman. Jessica Rosenworcel and Ajit Pai serve as Commissioners and there are currently two commissioner vacancies. 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; 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 OIG from April 1, 2013 through September 30, 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 34 Full Time Equivalent (“FTE”) and two Not to Exceed (“NTE”) term appointed professionals, and seven FTE and one NTE support personnel. The staffing needs of this office have been described in prior Semiannual Reports. OIG hired five professional staff and one support person this reporting period and there are other hiring actions in progress.

OIG had requested funds in the last four fiscal year (“FY”) budget requests for additional staff. Additional funds were provided to OIG in the FY 2012 budget authorization, but we were not provided a specific FTE allocation. The FY 2013 Continuing Resolution (“CR”) budget and the sequestration lowered the OIG budget; however, prior planning enables us to meet the budget constraints without degrading OIG’s mission capabilities. Although the past budgets did not increase OIG’s FTE allocation, OIG continues to seek funding to hire additional FTE staff to meet our needs in providing oversight of Commission programs and operations. Most notably, we have created and filled three Deputy AIG for Audit, a reorganization that greatly enhances the operations of our audit team. OIG continues to hire staff to meet our expanded needs and capabilities, but the federal government shutdown that occurred subsequent to the reporting period has hamstrung several hiring activities that were in progress.

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 and to meet the training requirements of our professional standards, 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.

Information Technology (“IT”) Initiatives

OIG continues to focus on improving the efficient use of scarce resources and makes every effort to find and utilize modern technology in ways that will leverage our resources for the most efficient and effective investigations and prosecutions of fraud, waste and abuse in FCC missions and programs.

Computer Forensics Laboratory

We reported in our last Semiannual Report that we had hired a computer forensics examiner and were developing a computer forensics laboratory (“lab”) to support investigations. That lab is now fully functional and providing critical support to internal investigations.

The computer forensics laboratory was created to provide laboratory and field support for digital evidence seized or surrendered to OIG or other law enforcement agencies working with the OIG. Typical digital evidence forensic support services include: computer and computer storage examination, volatile and flash memory storage device examination, on-site computer hard drive imaging, expert witness testimony, data analysis to determine evidentiary value, and technical training.

OFFICE OF MANAGEMENT

In addition to supporting investigations, the computer forensics laboratory supports other OIG IT initiatives. For example, the computer forensics laboratory sterilizes surplus digital media used by OIG auditors and investigators to ensure that sensitive information is not released when that media is returned to the FCC helpdesk. During the reporting period, the computer forensics laboratory wiped hard drives from 24 computers and external devices as well as two iPhones obtained as part of an investigation.

The computer forensics lab also supported a project to examine and disposition a large volume of digital media that the office has accumulated through the normal course of audits and investigations as well as digital media used by OIG staff going back to the early 1990s. The media was examined to determine if information contained on the media needed to be maintained for records management or other purposes and to wipe and dispose of the media that did not need to be maintained. During the reporting period, the computer forensics laboratory examined 28 computer hard drives, 254 CDs and DVDs, and a variety of other media including backup tapes, ZIP disks and floppy disks.

OIG Subnetwork

OIG recently initiated a project to further protect OIG independence by establishing an OIG subnetwork. This will be achieved by designing a subnetwork within the FCC network, with its own firewall and subsystems that we determine to be both necessary and technologically feasible. A subnetwork would provide faster access to our storage area network (“SAN”), with fewer users and less congestion in SAN usage. This initiative is in an exploratory stage at the present time.

Electronic Records Management

OIG is in the process stage of developing an electronic records management system that will provide a reliable method to electronically store and use records. The primary objectives of this initiative are to a) provide OIG auditors and investigators with enhanced automated methods for discovery and documentation processes b) develop a knowledge base of previous audit and investigation findings regarding vulnerabilities and lessons learned, and c) develop mechanisms to manage OIG records consistent with federal mandates and policies.

Internship Program

OIG welcomes college interns during the fall, spring and summer semesters. OIG currently has two unpaid interns. OIG is using the Pathways program to hire an FTE mathematician and a paid legal advisor intern. 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 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.

OFFICE OF MANAGEMENT

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 AUDIT

OFFICE OF AUDITS

Under the authority of the Inspector General Act of 1978, as amended, OIG conducts independent and objective audits, inspections and related activities designed to prevent and detect waste, fraud and abuse and to promote economy, effectiveness and efficiency in FCC programs and operations. The Office of Audit (“OA”) ensures that these audits, inspections and activities are conducted in accordance with relevant professional standards.

During this reporting period, three Deputy AIGs were selected. Initially, each Deputy has one team performing Universal Service Fund (“USF”) oversight and one team performing oversight internal to the FCC. The projects below are described under the organization of OA in place for most of the semiannual reporting period, specifically, two reporting divisions - the Operations, Financial, and Information Technology Division (“OFID”) and the Universal Service Fund Oversight Division (“USFD”) as well as a Special Projects team.

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

Operations, Financial, and Information Technology Division

OFID conducts audits, inspections, evaluations, and other reviews designed to prevent and detect waste, fraud, and abuse and to promote economy and efficiency in the FCC. One FCC program under the purview of OFID is the Telecommunications Relay Service (“TRS”) fund that compensates TRS providers – generally telephone companies – for the costs of providing a telephone service that allows persons with hearing or speech disabilities to place and receive telephone calls.

Completed Audits and Other Projects

Website Security Assessment

The FCC Website Security Assessment objectives were to determine:

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

On June 14, 2013, we issued our *Report on the Federal Communications Commission Website Security Assessment* identifying 16 findings and 37 recommendations. Management’s comments to the final report noted, “ITC has no comment and accepts the report on the FCC Website Security Assessment.” Based on the inclusion of sensitive information, the report is for internal use only and will not be made available.

OFFICE OF AUDIT

In-Process Audits and Other Projects

Audit of the FCC Fiscal Year 2013 Consolidated Financial Statements

The Chief Financial Officers Act of 1990 (“CFO Act”), as amended, requires 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 contract and direction, KPMG LLP (“KPMG”), an independent public accounting firm, is performing the audit of the FCC’s FY 2013 consolidated financial statements. The audit is being 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. We expect to complete the audit during the next reporting period.

Fiscal Year 2013 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 of a representative subset of systems, and based on that testing, an assessment of the agency’s compliance with FISMA and applicable requirements. OIG contracted with KPMG to perform the FY 2013 evaluation. This evaluation is currently ongoing anticipating completion during the next semiannual reporting period.

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

OA is conducting an inspection of the FCC’s purchase and travel card program to follow-up on findings from a 2010 OIG audit. The inspection will determine whether policies and procedures have been implemented to address deficiencies reported in the June 23, 2010 audit report. Fieldwork is complete and we expect to issue our final report during the next semiannual reporting period.

Physical Security Assessment

The FCC Physical Security Assessment objectives include:

- 1) Assess the adequacy and the effectiveness of the FCC’s physical security program;
- 2) Determine the adequacy of, and compliance with, the FCC’s physical security policies, procedures, and directives; and
- 3) Determine the Commission’s compliance with relevant laws, regulations, directives, standards, and guidance concerning physical security from the Office of Management and Budget (“OMB”), Department of Homeland Security (“DHS”), and National Institute of Standards and Technology (“NIST”).

This assessment will be completed during the next semiannual reporting period.

OFFICE OF AUDIT

Sole Source Contracts Inspection

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 and award) 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 expect to issue our final report during the next semiannual reporting period.

Audit of the FCC Red Light Rule: Debt Collection

OA has contracted with the independent public accounting firm Lani Eko and Company ("LEC") to perform an audit of part of FCC's debt collection effort, the FCC's Red Light Rule, 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.

The audit field work is in progress and we expect the audit report to be issued during the next semiannual reporting period.

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

OA has contracted with LEC to perform an audit to determine if the 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.

The audit field work is complete and we expect the audit report to be issued during the next semiannual reporting period.

Audit of the FCC Administrative Operations

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

OFFICE OF AUDIT

Audit objectives include:

- 1) Identify and assess the adequacy and the effectiveness of the controls over certain aspects of 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.

LEC has completed the field work and provided the draft report to OIG management for review. The draft report is currently under legal review and we expect to issue the final report during the next reporting period.

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 fieldwork for the audit is complete and OIG is in the process of reviewing and approving the report. We expect to issue the final report during the next reporting period.

Audit of FCC Civil Monetary Penalties

OIG 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 effectiveness of FCC controls over the management of Civil Monetary Penalties; and
- 2) Determine the adequacy of and compliance with FCC rules, directives, policies, and procedures; and determine FCC compliance with OMB, Treasury, and other federal government guidance regarding civil monetary penalties.

The audit field work is in progress and we expect the audit report to be issued during the next semiannual reporting period.

Audits of the Telecommunications Relay Service

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.

Audit of 2012 Federal Funds Paid to Telecommunications Relay Service Providers

OA contracted with Clifton Larson Allen, LLP for performance audits of five VRS providers.

OFFICE OF AUDIT

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 fieldwork is complete and we anticipate issuing the final audit reports during the next reporting period.

Audit of VRS Providers Relay Service Data Request Projections

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

- 1) Determine the basis of the calculations used to arrive at projections included in the Relay Service Data Requests 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 accuracy of cost and minutes-of-service projections for program years 2008 through 2012. Audit fieldwork is in process and we anticipate issuing the final audit report during the next reporting period.

Audit of the TRS Fund Administrator

OA contracted with LEC for a performance audit of the TRS Fund Administrator for the period from July 1, 2011, through December 31, 2012. Audit objectives include:

- 1) Whether 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; specifically:
 - 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

Audit fieldwork is in process and we anticipate issuing the final audit report during the next reporting period.

Universal Service Fund Oversight Division

The Universal Service Fund Oversight Division ("USFD") conducts audits, evaluations, inspections, and other activities 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:

OFFICE OF AUDIT

The **High Cost Program** helps to ensure that voice and broadband services are available to consumers across the country at comparable rates. FY2012 disbursements, including legacy and Connect America Fund support, were approximately \$4.15 billion.

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 36,000 eligible applicants benefited in FY2012, receiving approximately \$2.2 billion, bringing telecommunications and Internet services to millions of students and library patrons.

The **Lifeline 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 2012 program payments of approximately \$2.19 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. The Rural Health Care Program is made up of four programs: the Healthcare Connect Fund, the Telecommunications Program, the Internet Access Program and the Rural Health Care Pilot Program. For FY2012, over 3,500 health care providers in the Rural Health Care Program along with over 2,600 Rural Health Care Pilot Program providers received approximately \$155 million in support. The Pilot Program supported the development of advanced networks to support telemedicine services. This year, building on lessons learned from the Pilot Program, FCC created the Healthcare Connect Fund to expand access to advanced broadband networks for HCPs serving rural areas across the country.

Contributors. OIG is also responsible for providing oversight of the accuracy of USF receipts collected from telecommunications providers of international and interstate telecommunications services referred to as contributors. Over 3,000 contributors submitted total contributions of approximately \$9 billion in FY2012.

The OA Universal Service Fund Oversight Division is organized into three operational teams including (1) High Cost, (2) Contributors/Low Income, and (3) Schools and Libraries/Rural Health Care.

Compliance Assessment Program Overview

As part of the USFD effort to ensure beneficiary and participant compliance with USF program regulations and to evaluate effectiveness of the programs, OA is continuing the Compliance Assessment Program (“CAP”) discussed in a previous 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.

OFFICE OF AUDIT

Completed Audits and Other Projects

Contributors/Low Income Program

On September 30, 2013, we issued three final Low Income Compliance audit reports. The audits of Absolute Home Phones Inc. (report number 12-AUD-01-12), Easy Telephone Services, Inc. (report number 12-AUD-01-04), and Affordable Home Phones Inc. (report number 12-AUD-01-05) identified several findings in which the Companies did not comply with the FCC's USF Low Income program rules. We found that all three Companies were not eligible for Link Up reimbursements for adding new Lifeline subscribers, and recommended total recoveries of almost \$1.1 million. Two of the Companies claimed Lifeline discounts before obtaining the self-certification forms signed and dated by its subscribers. During the course of our audit, two of the Companies resolved a matter by returning almost \$1.4 million for not having self-certifications for all of their subscribers.

On April 18, 2013, we issued a Low Income Compliance final survey report on Flatel, Inc. (report number 12-AUD-01-13) disclosing no instances of non-compliance with the Low Income program rules.

On September 25, 2013, we issued Low Income Compliance final survey reports on PR Wireless, Inc. (report number 12-AUD-01-06) and Michigan Bell Telephone Company (report number 12-AUD-01-07) disclosing no instances of non-compliance with the Low Income program rules. Survey reports are issued when a decision is made to not expand the survey to a full-scope audit.

Review of the FCC/USAC Lifeline Verification Process

During this reporting period, OA completed a review of the Universal Service Administrative Company ("USAC") process to identify and resolve duplicate Low Income subscriber accounts. On September 25, 2013, we issued a memorandum describing two issues and included our suggested improvements to the process.

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 ("IDVs"), compares subscriber listings obtained from selected Lifeline providers in a given state. USAC has reviewed 17.8 million subscribers and found that 8.3 percent or about 1.5 million subscribers have more than one Lifeline account. Over 200,000 subscribers were found to have three or more accounts, with some having as many as 11 accounts.

We found that that the duplicate review process is effective but stricter actions are needed for some duplicate subscribers. The process, saving \$246.3 million to date, or nearly \$90 for every dollar spent, is a cost effective method of reducing improper Lifeline fund payments. These estimates are based *on the assumption* that the offending subscribers will not return to the practice of obtaining duplicate Lifeline accounts. Given the large volume of subscribers found with duplicate accounts, we support the current process regarding subscribers found with one wire line and one wireless account. However, the process does not result in appropriate action taken regarding subscribers with three or more accounts. We made suggestions to further reduce improper payments, fraud, waste and abuse by taking additional actions to resolve duplications with subscribers found with three or more wire line and/or wireless Lifeline accounts.

OFFICE OF AUDIT

We also found that Lifeline subscribers are frequently warned of the consequences of abusing the Lifeline program. Every subscriber must sign a self-certification form, under penalty of perjury, that they are eligible for the Lifeline benefit and will receive only one benefit. Furthermore, the letters sent to subscribers found with duplicative Lifeline accounts warn them that willfully making false claims to obtain Lifeline support can be punishable by fine, suspension or being barred from the program, or face criminal prosecution. However, the FCC has never taken, or attempted, to punish a Lifeline subscriber and may not even have the authority to do so. We agree with Bureau officials that while prosecuting subscribers is not a cost effective option, suspending chronically abusive subscribers from the Lifeline program may be a timely and cost effective method to reduce the current level of fraud and abuse. To that end, we suggest that the FCC may improve the effectiveness of the warnings and reduce the level of fraud and abuse in the Lifeline program by determining whether it has the authority to suspend abusive subscribers, and if so, implement a process to suspend subscribers from Lifeline benefits in certain circumstances.

Schools and Libraries/Rural Health Care Programs

On June 4, 2013, we issued our compliance inspection report of Perry Street Preparatory Public Charter School (“Perry Street PPCS”). Our inspection disclosed that Perry Street PPCS did not comply with FCC rules related to 1) record retention and 2) maintenance of assets and inventory records. The School could not provide adequate documentation of the FY 2009 application, but we were able to obtain records from USAC to test compliance. We found that the School’s asset and inventory records were inadequate to locate USF equipment and verify when equipment was delivered and installed. We recommended recovery of \$1,255 for missing equipment. We also recommended that the school 1) revise its policy and procedures concerning record retention; 2) retain all documentation to support the application including discount calculation; the competitive bidding process; asset and inventory records and 3) request approval from USAC for equipment substitutions. FCC has agreed with our recommendations and action to recover funds is ongoing.

Status of Previously Issued Schools & Libraries Audit Reports

For the first time, we are adding a feature to our semiannual report regarding the status of previously issued reports. As reports are resolved, whether through the administrative process or appeal to the FCC, we will be reporting on the financial impact of our audits. This initial reporting covers recently issued Schools & Library oversight reports; we will expand this information in future semi-annual reports.

Hampstead Hill Elementary School (report number 10-AUD-11-01), dated December 19, 2012: Recovery of \$292,444 was recommended due to the lack of an evaluation of cost effectiveness of a sole source bid. Action is pending. FCC agreed to recover if USAC’s review of the procurement finds that the contract award was not cost effective.

Pittsburg Unified School District (report number 10-AUD-05-03), dated March 15, 2012: FCC disagreed that a violation occurred in our finding (concerning lack of a binding contract prior to the District’s application) and will not seek recovery of \$2,153,888. OIG and FCC did not resolve this disagreement through the audit resolution process. Only \$15,911 has been recovered where the district was overcharged by the service provider and services were paid for internal connections to an ineligible non-instructional facility.

San Bernardino City Unified School District (report number 09-AUD-07-11), dated September 30, 2010: Funds in the amount of \$464,228 were recovered due to service provider overcharges and payment for ineligible services/goods.

OFFICE OF AUDIT

In-Process Audits and Other Projects

Review of 16 High Cost Incumbent Local Exchange Carriers

A statistically valid analysis package for legacy High Cost programs that was initiated during a prior semiannual reporting period continues. The objective of this project is to determine a more efficient method for evaluating high cost data and providing oversight through the use of advanced audit and other analytical techniques. These advanced screening techniques will provide OIG with quantitative data allowing OIG to maximize limited resources. Major focus areas include, but are not limited to:

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

During this reporting period, we initiated a Low Income compliance audit of Mextel Communications Inc. We anticipate issuing a draft report during the next semiannual reporting period. Draft reports are provided to auditees to obtain comments on preliminary findings.

Schools and Libraries/Rural Health Care Programs

A project initiated during the last semiannual reporting period to review the Schools and Libraries Program focusing on recent and proposed reforms that affect achievement of program goals and the vulnerability of the program resources continues. We are reviewing prior audit recommendations; FCC performance reports; FCC Orders including recent reforms; prior investigations of fraud, waste and abuse and previous risk assessments. We anticipate issuing a report in the next reporting period.

Special Projects Team

The OA Special Projects Team oversees audits; conducts surveys, reviews and evaluations; prepares responses to Congressional requests; evaluates and recommends policy guidance; provides legal review and support, monitors legislative activities, case law and newly released publications related to the operations of OA; and completes other projects as assigned.

OFFICE OF AUDIT

Completed Projects and Assignments

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

In accordance with the Office of Management and Budget Memorandum for the Heads of Executive Departments and Agencies, M-11-16, dated April 12, 2011, (“OMB Guidance”), OIG engaged the services of KPMG to audit FCC compliance with the Improper Payments Elimination and Recovery Act (Pub.L. 111-204) (“IPERA” or “IPIA”) for Fiscal Year 2012. The audit was conducted in accordance with generally accepted government auditing standards, and in its final report dated April 12, 2013, KPMG provided its opinion that it “did not identify instances of noncompliance with IPIA, as defined in (OMB Guidance).” The FCC expressed appreciation for a number of specific recommendations identified by KPMG for improving FCC’s identification of improper payments.

In connection with the contract with KPMG, we attended most if not all interviews it conducted as part of its audit; regularly met with KPMG to discuss the audit status and any outstanding issues; and reviewed KPMG’s report and related documentation.

In-Process Projects and Assignments

During this semiannual reporting period this office completed the process of selecting an independent certified public accounting firm to conduct the IPERA audit for Fiscal Year 2013. Additionally we continued to monitor the implementation of the Improper Payments Elimination and Recovery Improvement Act of 2012, Public Law 112-248, signed into law on January 10, 2013.

OA Assistance to the OIG Office of Investigations and Other FCC Organizations

During this reporting period, OA provided audit and technical assistance to the OIG Office of Investigations and other FCC offices and bureaus on a number of topics, including:

- USTA Forbearance Petition
- Rate of Return Represcription Staff Report
- High Cost PQA program
- Inmate Calling Services (ICS)
- On-going high cost investigations

OFFICE OF INVESTIGATION

OFFICE OF INVESTIGATION

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

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

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

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, 83 cases were pending. Over the last six months, 26 cases have been closed and 27 opened. As a consequence, a total of 84 cases are pending. These numbers do not include preliminary reviews of allegations, from the Hotline or other sources, or matters involving minimal analysis of the allegations or evidence.

Statistics

Cases pending as of April 1, 2013	83
New Cases	27
Cases Closed	26
Cases pending as of September 30, 2013	84

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.

OFFICE OF INVESTIGATION

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. 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. Following successful prosecutions from OI investigations, FCC's Enforcement Bureau ("EB") initiated several suspension proceedings.

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

Civil Settlements and Criminal Convictions

In July 2013, Larry Lehmann agreed pay \$400,000 to settle a *qui tam* lawsuit alleging that he violated the Federal False Claims Act for actions related to E-rate funded contracting from 2004 to 2006 at the Houston Independent School District ("HISD"). Lehman has also agreed to debarment from the E-rate Program, and government-wide Voluntary Exclusion from procurement and non-procurement programs. Both the debarment and Voluntary Exclusion are for a period of ten years.

The investigation had 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.

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 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. 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

The FCC OIG is continuing its work with the Criminal Division of DOJ and the FBI in the ongoing investigation involving fraud on the FCC's Telecommunications Relay Service ("TRS") Fund program. See page 13 for a description of this program.

OFFICE OF INVESTIGATION

In addition to working with the Criminal Division of DOJ, OIG continued its support of the Civil Division's litigation of *qui tam* (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 ("FCA"). The parties are litigating the matter.

OIG efforts in investigating IP relay fraud had a marked effect on the size of the IP Relay Fund. Our investigation, spurred by the *qui tam*, led to significant reform/enforcement efforts within the Commission and contributed to reduced annual claims of over \$40 million (approximately a 60% reduction). In the 2011 rate year, compensation for IP Relay calls was just over \$68 million. In 2012, compensation dropped to \$44.8 million and to \$26.9 million in the 2013 rate year.

SNAP-HDS

After EB declined to initiate enforcement action, OI commenced an investigation of SNAP!VRS ("SNAP") to determine whether it was fraudulently obtaining VRS funds. Further review of documents initially obtained by EB revealed that SNAP had misrepresented to the Commission a purported business arrangement with Hire Disability Solutions ("HDS") whereby SNAP was to provide VRS to support training services provided by HDS.

OI presented the allegations to the DOJ Civil Division, whereupon a case was opened pursuant to the FCA. Our joint investigation/interviews demonstrated that the SNAP-HDS program was merely an elaborate minute-pumping scheme.

DOJ sent SNAP a demand letter offering to settle the FCA case without litigation, and SNAP admitted its wrongdoing. However, rather than settling the case with DOJ, SNAP went out of business and abandoned its claim to VRS compensation that was being withheld in light of our investigation. DOJ decided not to pursue further legal action. While OI did not achieve the optimal result of full recovery of wrongly paid amounts and treble damages, in our opinion our actions ultimately may have saved the TRS fund up to \$750,000. Further, the case resulted in the removal of an unscrupulous service provider from the TRS market.

OIG 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.

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. OI has closed all 35 investigations, including five during this reporting period, pertaining to misconduct in the Recovery Act programs. Fraud and a number of contractual problems were revealed by our investigations.

OFFICE OF INVESTIGATION

Examples of ARRA-related allegations received and investigated by OI include:

- 1) Submission and payment of claims for compensation when work was not performed;
- 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.

Our most significant Recovery Act investigation recently came to a successful conclusion and is described below.

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

On September 25, 2013, in the United States District Court for Arizona, Eric B. Jenkins, President of PrimeX Technology, Inc., was sentenced to five year's probation and required to pay full restitution of \$493,610 after pleading guilty to one count of Transactional Money Laundering in connection with claims for compensation in the Digital Television 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. FCC accepted five of the invoices and remitted \$493,610 to PrimeX as payment for the claimed installations. 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.

OI assisted in this investigation with the U.S. Attorney's Office in the District of Arizona and the FBI.

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 OI 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.

OFFICE OF INVESTIGATION

Proactive Investigation of Child Pornography on the FCC Network

OI conducted a proactive investigation of child pornography on the FCC network. The purpose of the investigation was to scan computers and other devices connected to the FCC network to determine if child pornography was stored on this equipment. To conduct the proactive investigation, OIG investigators worked with contractor personnel from the Network Security Operations Center (“NSOC”). OIG investigators developed a comprehensive list of child pornography keywords obtained from the National Institute of Justice (NIJ), Internet Crimes Against Children (“ICAC”) Task Force, and other law enforcement sources. The keyword list was provided to NSOC personnel. NSOC personnel used a contractor proprietary tool to run the keyword list against files names on devices connected to the FCC network. NSOC staff ran the tool two days per week for four weeks and provided the results of the search to OIG personnel. The initial results of the search identified 92 devices containing files with names that contained keywords from the comprehensive keyword list. OIG investigators reviewed the search hits and used professional judgment to identify and remove search hits that appeared to be false positives. Ultimately, 70 of the of the original devices under review were removed from the list of devices warranting further examination. FCC investigators previewed the remaining 22 computers devices and determined that none of them contained child pornography. However two computers are the subject of separate investigations based on significant amounts of pornographic material as well as solicitation and time and attendance issues.

Gray Market or Counterfeit Goods Provided by FCC Contractor

The FCC Information and Technology Office ordered a shipment of Cisco brand computer equipment from a company in September 2011. Due to the diligence of the FCC IT staff, they noticed irregularities with the packaging, labeling and the manner of shipment. After having made preliminary inquiries to Cisco that confirmed that much of the equipment was potentially either "gray market" (business conducted outside normal distribution channels by a company having no relationship with the manufacturer and which was clearly prohibited by the contract) or was counterfeit, IT sought the assistance of OIG. Once Cisco representatives more conclusively determined that at least a portion of the shipment was counterfeit, IG investigators began working with Immigration and Custom Enforcement agents who seized the goods to determine further the exact nature of the equipment and whether criminal charges should be brought against the vendor. This additional investigation resulted in the company going out of business during this reporting period, ending potential false claim litigations and eliminating a possible future source of illicit or non-warrantable equipment to numerous other federal agencies.

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.

OFFICE OF INSPECTOR GENERAL HOTLINE

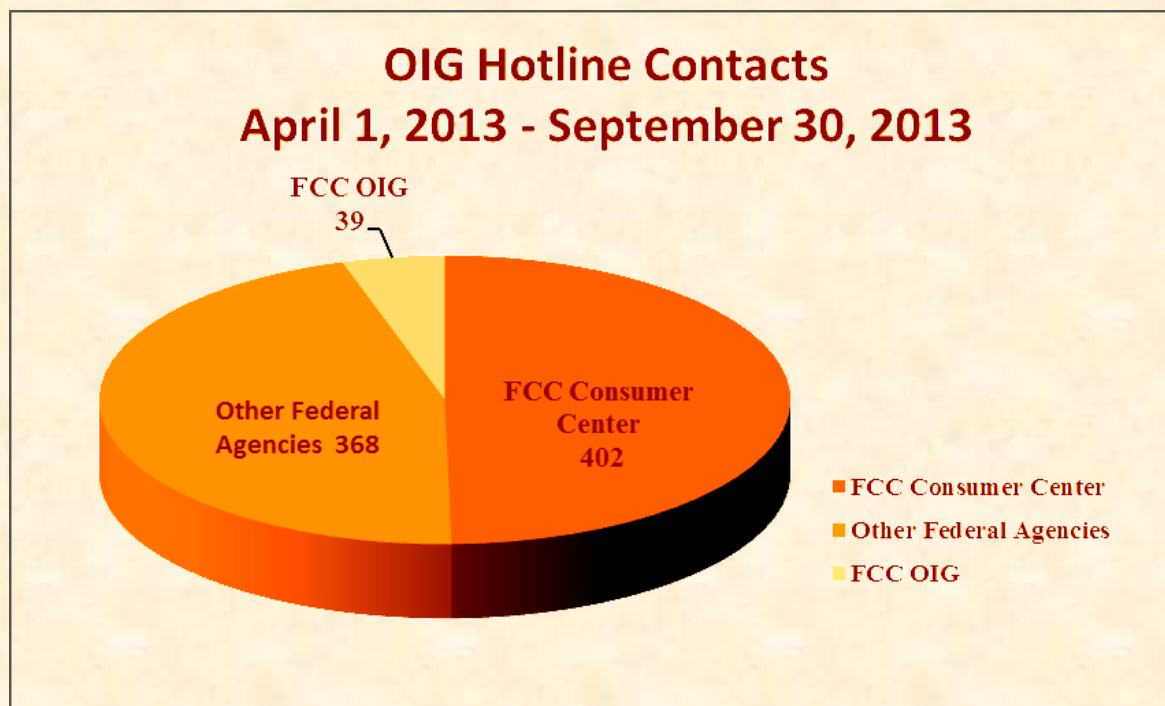
Consumers who have general questions or issues not related to fraud, waste and abuse, should contact the FCC's Consumer & Governmental Affairs Bureau ("CGB") at www.fcc.gov/cgb, or contact the FCC's Consumer Center by calling 1-888-CALL-FCC (1-888-225-5322) voice or 1-888-TELL-FCC (1-888-835-5322). CGB 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) 809 Hotline contacts. Of these, 39 referred to OI for possible case openings;
- 2) 402 were referred to FCC Consumer Center; and
- 3) 368 were referred to other agencies including 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 "Office of Audit" 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 sections of this report titled "Office of Audit" 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.

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 Audit" 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.

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

REPORTING REQUIREMENTS

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.

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.	1	\$292,444	—
B. Which were issued during the reporting period.	4	\$1,101,255	—
C. For which a management decision was made during the reporting period	2	\$293,699	—
(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.	3	\$1,100,000	—
E. For which no management decision was made within six months of issuance	—	—	—

APPENDIX

As required by Public Law 111-203, OIG is pleased to report that during this reporting period the Government Printing Office (“GPO”), Office of Inspector General, conducted a peer review of this office. Two recommendations were noted in the letter of comment dated September 24, 2013. GPO OIG recommended we update our Audit Manual to include all auditing standard requirements and that we ensure audit recommendations are tracked and resolutions are documented. We have already initiated corrective actions for these matters. In the peer review report, also dated September 24, 2013, OIG 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: 202-418-0473
888-863-2244**