
**Federal Communications Commission
Office of Inspector General**



**Semiannual Report to Congress
April 1, 2019—September 30, 2019**

THE FEDERAL COMMUNICATIONS COMMISSION



Left to Right:

**Commissioner Jessica Rosenworcel, Commissioner Michael O’Rielly,
Chairman Ajit Pai,
Commissioner Brendan Carr, Commissioner Geoffrey Starks**

COVER MEMORANDUM

DATE: November 4, 2019

TO: Chairman Ajit Pai, Federal Communications Commission
Commissioner Michael O’Rielly
Commissioner Brendan Carr
Commissioner Jessica Rosenworcel
Commissioner Geoffrey Starks

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, 2019. In accordance with Section 5(b) of that Act, it would be appreciated if this report, along with any associated report that you may prepare, be forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

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

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



David L. Hunt
Inspector General

Enclosure

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INTRODUCTION

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

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

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

Stephen Ebner, AIG for Management

Sharon Diskin, AIG for Investigations and Counsel to the IG

Robert McGriff, AIG for Audit

In this semiannual report, we discuss both the major accomplishments and activities of the OIG from April 1, 2019 through September 30, 2019, as well as its goals and future plans.

OFFICE OF MANAGEMENT

Office Staffing

Currently our office consists of 46 highly-educated, experienced administrative and professional staff including auditors, investigators, attorneys, paralegals, an IT specialist, a contract specialist, a computer forensic investigator, and a data analyst. Due to retirements and routine staff turnover, we have initiated a recruiting process, with an emphasis on more junior positions. This will both help this office budgetarily and will allow us to grow from within. This will give newer hires the benefit of the depth of our staff's knowledge and experience. Further, this course will help to ensure that our staff has a career path to follow.

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

Process Improvement

Since mid-2017, FCC OIG has been using a FedRAMP compliant secure cloud platform, to store electronic records via Alfresco, expand analytical capacities and improve data processing, primarily relating to OIG's investigations of waste, fraud, and abuse in the Universal Service Fund programs.

Alfresco is an Electronic Records Management System (ERMS) initiative started in 2014 to meet Federal directives for electronic records management milestones of 2016 and 2019 (NARA, OMB, and Presidential mandates), increase productivity, and secure sensitive data.

We continue to migrate investigation data directly from the office and the existing FCC datacenter to a cloud computing service allowing us to leverage large dataset data mining tools like PostgreSQL and Redshift columnar cluster database technologies.

These database and application initiatives have enabled us to reduce analytical and data processing time from weeks and months to hours or days in most instances, even as data analytics requirements continue to grow.

Prior to leveraging cloud computing services, OIG’s data analytics relied solely on a local on-premise datacenter and virtual servers for running various SQL database management systems. The OIG data analytics team was often hindered by existing system specifications (e.g., available licenses, memory and storage resources, supported operating systems). Shifting a portion of our large dataset processing functions to the cloud empowers the OIG to dynamically adjust our analytical capabilities to load, store and reduce processing time, even when working with ever larger datasets containing billions of records.

Legislative and Policy Matters

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

Further, during the reporting period, we continued to share updated recommendations to prevent and detect fraud in Universal Service programs with Commission and Universal Service Administrative Company (USAC) staff. *See infra* pp. 10-14.

OFFICE OF INVESTIGATION

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

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, Congress and the public at large. Whistleblower requests for anonymity are honored, except when identification is needed for law enforcement purposes. Allegations may also be referred by OIG auditors.

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

Activity During This Period

Cases pending as of March 31, 2019.....	59
New Cases.....	3
Cases Closed.....	9
Cases pending as of September 30, 2019.....	53

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.

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. During this reporting period, in particular, we have been working on numerous investigations upon which we cannot report, including matters before a Grand Jury and sealed *qui tams*.

Investigations into Fraud in the Federal Universal Service Program

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

The *High Cost Program*, which is being reformed and transitioning to the Connect America Fund (CAF), provides support to certain qualifying telecommunications carriers serving high-cost (primarily rural) areas. Telecommunications carriers receiving High Cost support must offer services to rural area consumers at rates reasonably comparable to the rates for services offered in urban areas. The CAF is designed to transition the program away from providing voice-only telephone service to providing multi-purpose networks capable of offering broadband Internet access. Funding for CAF, including legacy High Cost Program support was \$4.8 billion in 2018.

The *Schools and Libraries Program*, also known as "E-rate," provides support to eligible schools and libraries in every U.S. state and territory to help fund telecommunication services, Internet access, and internal connections. In funding year 2018, USAC received over 35,000 applications from schools and libraries. Authorized E-rate funding totaled more than \$2.1 billion in calendar year 2018.¹

¹ OIG relies upon USAC's annual reports for the statistics regarding number of schools served. USAC changed its reporting in its 2017 Annual Report to report calendar year statistics versus E-rate Funding Year statistics. Therefore, if viewing this SAR in conjunction with past SARs, a substantial increase in the number of schools and libraries served by the E-rate Program will be noted, reflecting USAC's 2017 Annual Report.

The *Rural Health Care (RHC) Program* provides support to eligible rural health care providers that qualify for reduced rates for telecommunications and broadband services. This support subsidizes their access to these services, making telehealth services affordable in rural areas. Demand for Rural Health Care Program funding has risen over the past three years. In June 2018, the FCC issued a new Funding Cap Order, which increased the annual RHC Program funding cap to \$571 million, annually adjusted for inflation, beginning with funding year 2018. The Order also established a process to carry-forward unused funds from past funding years for use in future funding years.

The *Lifeline Program* provides support to eligible telecommunications carriers that, in turn, offer discounts on telecommunications services to eligible consumers. Over 9 million low-income households throughout the nation benefited from 2018 program year payments of approximately \$1.14 billion.

OIG is also responsible for providing oversight of USF receipts collected from telecommunications providers offering international and interstate telecommunications services. Those telecommunications providers are collectively referred to as *contributors*. Over 3,300 contributors submitted total contributions of approximately \$8.16 billion in 2018.

The bulk of OI's work involves investigating and supporting civil and criminal investigations and prosecutions of fraud in the FCC's federal universal service programs. The Assistant Inspector General for Investigation (AIGI) and investigations staff work routinely with other state, local and federal agencies on these matters. These coordinated investigatory and prosecutorial efforts, especially those involving DOJ, the Department of Education and its OIG, and various U.S. Attorneys, have resulted in many successes, including civil settlements and criminal convictions.

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

Lifeline Program

Lifeline Investigations Ongoing

OI's Lifeline Investigations team continues to work on an active roster of investigations concerning Lifeline Eligible Telecommunications Carriers (ETCs), sales agents and other individuals. The Lifeline team works with DOJ, including U. S. Attorneys' Offices around the country, to pursue civil and criminal cases against those who defraud the Lifeline program.

Lifeline Fraud Advisory

In April, OI issued an advisory to alert Lifeline carriers, beneficiaries, and the public to several fraudulent enrollment practices the office found pervasive across several former and ongoing investigations. The practices described in OI's advisory clearly violate program rules and divert substantial monies from the intended beneficiaries of the program.

Significantly, the advisory described in detail the “tricks” used by Lifeline carriers and carrier agents to evade program safeguards—practices which should be easily discernable by Lifeline carriers, who must certify compliance with program rules as a condition of reimbursement from the U.S. Treasury. OI provided specific examples of identity/name manipulation used to circumvent National Lifeline Accountability Database² (NLAD) safeguards. Finally, the advisory described other abuses related to address manipulation and non-qualifying program documentation. By shining a light on these abusive practices, OI hopes to deter to future fraudulent conduct.

Commission Messaging Regarding the National Verifier

OI advised the Commission and USAC that vague and confusing messaging regarding the “responsibility-shifting” role of the National Verifier³ will likely lead to significant negative impacts. The Verifier's efficacy at deterring fraud in the Lifeline program is dependent on the quality and authenticity of subscriber enrollment submitted by ETCs and their agents. As described above, OI issued an advisory detailing some of the ways ETCs and their agents manipulate identity and other information to evade program safeguards. Moreover, the Commission's and USAC's messaging conflicts with, if not outright contradicts, previous

² NLAD allows service providers to check on a real-time, nationwide basis whether a consumer is already receiving a Lifeline Program-supported service. Generally, service providers can only claim reimbursement for Lifeline subscribers that are enrolled in NLAD.

³ The Lifeline National Eligibility Verifier (National Verifier) is a centralized system that determines whether subscribers are eligible for Lifeline.

Commission statements, particularly ETC enrollment obligations under 47 CFR § 54.410 (a) and the Commission’s June 2017 Public Notice. In response, the Commission has committed to issuing guidance advising stakeholders that the Verifier will not “relieve providers of their fundamental obligation to ensure subscriber eligibility.” Moreover, the Commission’s guidance will make clear “the use of the National Verifier does not provide a safe harbor for ETCs.”

Deceased Subscriber Recoveries

As discussed in several previous semi-annual reports, OI reported the discovery that ETCs had enrolled tens of thousands of deceased subscribers. OI continues to investigate conduct related to those enrollments.

OI also recommended the Commission and USAC develop a process for the recovery of wrongfully disbursed Lifeline funds from ETCs who enrolled deceased subscribers. USAC adopted OI’s recommendation and developed a recovery process modeled on the Commitment Adjustment (COMAD)⁴ process for funds wrongly disbursed to in the Schools and Libraries program.

To date, OI has recommended USAC recover monies disbursed to four ETCs who collectively enrolled thousands of deceased subscribers and continues to evaluate other ETCs. OI plans to complete its review during the next reporting period. USAC is in the process of recovering USF monies disbursed to ETCs on behalf of those already-deceased subscribers.

E-Rate Program

Investigations Ongoing

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

Former Kentucky Based Vendor

The trial of Charles A. “Chuck” Jones and his associate Mark J. Whitaker of Murray, Kentucky has been rescheduled from January to April 2020. Jones and Whitaker were indicted in February

⁴ As a result of program reviews and audits, USAC may discover that certain funds were committed and/or disbursed in error. The FCC requires USAC to rescind commitments and recover funding that has been improperly disbursed. USAC refers to this process as the Commitment Adjustment or "COMAD" process.

2019 in Memphis, TN on federal criminal charges of conspiracy to commit wire fraud and wire fraud.

Nova Charter School and ADI Engineering

On July 26, 2019, Donatus Anyanwu, owner of ADI Engineering (ADI), pled guilty to one count of conspiracy to commit mail and wire fraud. Pursuant to the plea agreement, Anyanwu admitted to devising a scheme and artifice to defraud the E-rate program with Donna Woods, CEO of Nova Charter School (Nova), by using Woods's position and control at Nova to select ADI as Nova's E-rate Priority II service provider in violation of E-rate's open and fair competitive bidding requirement. Over the course of this conspiracy, ADI was paid approximately \$337,951.06 in E-rate funds that it was not entitled to receive.

The trial of Anyanwu's co-defendant, Donna Woods, commenced on September 30, 2019.

Identification of Potential Discount Rate Discrepancies

OI has continued its investigation into individual schools where potential fraudulent reporting of National School Lunch Program numbers by applicants to USAC was identified. The limited results to date have supported OI's previous suspicions and revealed fraudulent activity. OI recently hired a second full-time data analyst who will be assisting in the review of this data to identify additional instances where fraudulent activity has occurred. OI anticipates opening new cases relating to this issue in the next reporting period.

Creation of an Online Competitive Bid Repository within EPC

Since January 2017, OI has recommended USAC create an online competitive bid repository within the E-rate Production Center (EPC)⁵. OI has brought this matter to the attention of FCC's Wireline Competition Bureau (WCB) on multiple occasions and included the recommendation in each of the past four Semiannual Reports to Congress (SARs). To date, OI does not believe any progress has been made on this recommendation and OI does not currently know if USAC will create this repository.

⁵ EPC is the account and application management portal for the Schools and Libraries (E-rate) Program. E-rate Program participants use this tool to manage program processes, receive notifications and to contact customer service.

Suspension and Debarment Recommendation

As noted in previous SARs, OI has been tracking Commission efforts to expand the Commission's suspension and debarment criteria to cover additional circumstances not yet addressed. Currently, suspension and debarment actions at the Commission are extremely limited and only occur in instances where a criminal conviction or civil judgment arising out of activities associated with or related to the USF has occurred. The limited nature of this criteria hampers both OI and the Commission's efforts to protect the USF from non-responsible persons and entities. OI is aware a suspension and debarment reform draft has been created by the Commission's Office of General Counsel but has yet to be instituted. OI continues to recommend the Commission expand its suspension and debarment program.

On April 30, 2019, OI became aware of Commission activity granting multiple appeals filed by two schools in the E-rate Program, seeking additional time to respond to USAC requests for information. Individuals associated with these two schools have either been found guilty of federal program fraud or work for an E-rate consultant who is currently under indictment for E-rate Program fraud. If a robust suspension and debarment program existed at the Commission, it may have prevented these schools from receiving funding from the Program.

Notification Process for Cancelled FCC Forms 470

OI became aware of situations where a delay in the commitment of E-rate Program funds leads an applicant to file for the same services in successive years. In these circumstances, although the applicant ultimately cancels the duplicative request once USAC issues the commitment, because USAC's system only has two options for indicating the status of an FCC Form 470⁶ – “Certified” or “Incomplete,” and does not employ any other mechanism to notify service providers when an applicant seeks to or has cancelled its FCC Form 470, bidders may submit bids in response to the duplicate request. The absence of such a mechanism may lead to unnecessary work on the part of bidders, including the filing of wasteful challenges, but more importantly, unnecessarily casts doubt on the fairness of the competitive bidding process. Adding a mechanism whereby USAC indicates cancellation of an FCC Form 470, would address both these issues. OI informed the Commission's Wireline Competition Bureau of this recommendation on April 1, 2019, but OI is unaware if any progress has been made.

⁶ FCC Form 470, Description of Services Requested and Certification Form, is an FCC form that schools and libraries complete to request services and establish eligibility.

Internal Affairs

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

Electronic Comment Filing System

In response to information obtained in the process of conducting an investigation related to the integrity of the FCC's comment filing system, in December 2018, FCC OIG sent a memorandum to the FCC's Managing Director, General Counsel, and the Chief of Staff to the Chairman outlining a series of recommendations for the Commission to consider in making changes to the current version of the Electronic Comment Filing System (ECFS) and its upcoming successor to: (1) mitigate fraudulent, abusive, and misleading uses of ECFS; and (2) facilitate future investigations of and accountability for those who abuse the system.

These recommendations are based on OIG's observations of instances of abusive and fraudulent uses of ECFS in multiple proceedings dating back to at least 2014 and up through the present. Specifically, OIG recommended that the replacement for the current version of ECFS should, among other things:

- Capture and retain certain information, such as the submitter's IP address and submission method (e.g., web form, public API, etc.), for each ECFS comment/filing received.
- Have a place for those who submit comments on behalf of others to identify themselves separate from the identity of the commenter on whose behalf they are submitting the comment. The terms of use for the new ECFS should require that a third-party submitter disclose his or her identity.
- Add an account system (it could be optional but recommended) to allow a commenter an easy way to login, post comments, and keep track of his or her comments. This would help address an issue about which large numbers of people complained that they had submitted comments to ECFS but were subsequently unable to find any trace of them. To avoid the costs of maintaining a separate account system, FCC could consider participating in GSA's "Login.gov" program, which manages login accounts for members of the public on behalf of multiple agencies, including OPM's USAJOBS site.

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- Allow commenters the option of making portions of their personally-identifiable information (PII) non-public to reduce the risks of future identity theft.
 - Create a standardized method for members of the public to submit anonymous comments that would result in the creation of a comment record with something like “Anonymous commenter” as the comment filer’s name. At the same time, ECFS’s terms of use (and warning page) should explicitly prohibit the use of fictitious names as well as the unauthorized use of any identities other than the user’s own identity.

In support of these recommendations, FCC OIG included a list of prominent examples of identity abuse found in ECFS comments, including comments purportedly from fictitious identities (such as “Batman” and “Bugs Bunny”), deceased public figures (including nearly all deceased US Presidents), living public figures, and FCC Commissioners.

Office of Inspector General Hotline

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

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

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

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

processes public inquiries, informal complaints, and questions regarding cable, radio, satellite, telephone, television and wireless services. The goal of this process is to foster a mutually satisfactory resolution of the complaint between the service provider and its customer.

During the current reporting period, OIG received:

1. 6971 Hotline contacts. Of these, one was referred to OIG for possible case opening.
2. 121 were referred to FCC Consumer Center or other FCC Bureaus.
3. 659 were referred to other agencies.

OFFICE OF AUDIT

Under the authority of the IG Act of 1978, as amended, the Office of Audit (OA) conducts or contracts for the performance of independent and objective audits, inspections, evaluations and related projects. These projects are designed to promote economy, effectiveness, and efficiency in FCC programs and operations; and detect and deter waste and abuse. OA projects are conducted in accordance with relevant professional standards, including Generally Accepted Government Auditing Standards (GAGAS), also known as Government Auditing Standards or the Yellow Book, and Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspections and Evaluations.

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

Operations, Financial, and Information Technology Division

OFID conducts mandatory and discretionary audits, inspections, and evaluations of FCC programs and operations. OFID's mandatory projects include the Financial Statement audit, Federal Information Security Management Act (FISMA) evaluation, Digital Accountability and Transparency Act (DATA Act) audit, Improper Payments Elimination and Recovery Improvement Act (IPERIA) compliance audit, and a review of the risk associated with government charge card transactions. OFID contracts with Independent Public Accountant (IPA) firms for most of the mandated projects. Discretionary projects may be contracted or performed by in-house auditors, depending on available staffing and other resources. OFID provides oversight and monitoring for its contracted audit services.

OFID completed two projects during the reporting period. Three projects are in process and will be summarized in a future reporting period.

Completed OFID Audits and Other Projects

Audit of FCC Compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012 (Project No. 19-AUD-02-01)

IPERIA requires each agency Inspector General to annually review their respective Agency's improper payment reporting in their Agency Financial Report and accompanying materials, to determine if the agency is in compliance with IPERIA. OA contracted with an IPA firm for an audit of the FCC's compliance with IPERIA for Fiscal Year 2018. The audit report, issued on June 3, 2019, found that the FCC was non-compliant with the requirements of IPERIA, as defined in OMB Memorandum M-18-20, Appendix C to OMB Circular A-123, *Requirements for Payment Integrity Improvement*. The audit report presents four findings related to Universal Service Fund (USF) programs:

1. The USF Lifeline program's gross improper payment rate of 18.47 percent exceeded the OMB statutory limit of less than 10 percent of the program's gross outlay.
2. USAC's methodology for estimating High Cost program improper payments was inadequate, and ineffective in targeting significant program risks.
3. The FCC's improper payment reporting for the Lifeline program did not identify and assess fraud risk and did not report the true root causes for improper payments in the program.
4. The FCC did not report all USF program improper payments and recoveries that it identified through initiatives other than payment recapture audits.

Findings 1, 2 and 3 discuss weaknesses that caused FCC to be non-compliant with IPERIA. Management partially concurred with findings number 1, 3, and 4, and did not concur with finding number 2. The audit report includes 11 recommendations intended to improve FCC's improper payment reporting.

DATA Act Recommendations Follow-up (Project no. 19-OASP-02-01)

The OIG completed a follow-up review to assess the FCC's implementation of recommendations from the Fiscal Year 2017 Digital Accountability and Transparency Act audit. That report (Report no. 17-AUD-08-04) was issued November 7, 2017 and included six recommendations for improvement.

The objective of OIG's follow-up review was to determine whether FCC management had implemented the four recommendations included in closure requests submitted to OIG on September 26, 2018. The OIG assessed FCC's corrective actions and concluded that the FCC had made progress toward implementing the audit recommendations; however, those actions did not support closing any of the four recommendations.

The OIG’s ongoing fiscal year 2019 DATA Act audit will also include procedures to further assess FCC management’s implementation of open prior year DATA Act audit recommendations. The audit report is due not later than November 8, 2019.

OFID In-Process Audits and Other Projects

Audit of FCC Fiscal Year 2019 Consolidated Financial Statement (Project No. 19-AUD-07-04)

Audit of FCC Fiscal Year 2019 Compliance with the Digital Accountability and Transparency Act of 2014 (Project No. 19-AUD-08-05)

FY 2019 Federal Information Security Modernization Act Evaluation (Project No. 19-EVAL-07-01)

Universal Service Fund Division

USFD conducts audits and inspections of USF program operations and beneficiaries. USFD is organized into three operating Directorates: Contributors and Lifeline; High Cost; and E-rate and Rural Healthcare. USFD projects are designed to detect and deter waste and abuse, and promote economy, effectiveness and efficiency of USF programs. USFD performs random and targeted audits based on requests, referrals, and our assessments of program risks. Our risk-based approach helps us to identify the most impactful and cost-effective audits, and conserve OA’s limited resources. USFD coordinates with USAC’s Internal Audit Division when planning audits and other projects to avoid duplication of work.

Seven USFD projects were in-process at the end of the reporting period and will be summarized in a future reporting period.

USFD In-Process Audits and Other Projects

Audit of Head Start Telecom, Inc. (Lifeline) (Project No. 18-AUD-01-01)

Audit of Tempo Telecom (Lifeline) (Project No. 18-AUD-12-09)

Audit of Spruce Knob Seneca Rocks Telephone Company (High Cost) (Project No. 18-AUD-08-07).

Audit of Centralia City School District 135 (E-Rate) (Project 19-AUD-02-02)

Audit of Pekin Public School District 108 (E-Rate) (Project No. 19-AUD-02-03)

Audit of Colbert County School District (E-Rate) (Project No. 19-AUD-10-07)

Audit of Cullman Public School District (E-Rate) (Project No. 19-AUD-10-06)

REPORTING REQUIREMENTS

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

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

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

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

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

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

Information technology (IT) recommendations represent the most significant recommendations from previous semiannual reports for which corrective actions have not yet been completed. Currently there are 15 open IT recommendations that were identified in prior FISMA and other IT audits and evaluations. The recommendations identified in prior FISMA evaluations address risk management, configuration management, identity and access management, information security continuous monitoring, and incident response. The annual FISMA evaluation testing has shown that the Commission has continued to improve processes within its overall information security program. Recent testing shows improvement in areas of risk management and contingency planning. We consider the FISMA recommendations for improving the FCC's information security continuous monitoring, and identity and access management to be the most significant recommendations. Therefore, significant work is needed resolve open IT recommendations.

With the exception of the public version of the FISMA report, all IT security reports contain sensitive information regarding the FCC's information security program and infrastructure. Accordingly, the reports are not released to the public. In recent SARs we noted recommendations made to the Commission for improvements to the E-rate program. One specific recommendation calling for the creation of an online competitive bid repository within EPC, discussed in the section of this report titled "Office of Investigation," has not yet been

implemented. Additionally, as noted in several previous SARs and as discussed in the section of this report titled “Office of Investigation,” OI has repeatedly recommended that the Commission improve and expand its suspension and debarment program.

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

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

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

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

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

No audit reports issued during the reporting period made recommendations that identified questioned costs or funds put to better use. See Table 1 for the status of questioned or unsupported costs.

7. A summary of each particularly significant report.

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

8. Statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs), for reports— (A) for which no management decision had been made by the commencement of the reporting period; (B) which were issued during the reporting period; (C) for which a management decision was made during the reporting period, including— (i) the dollar value of disallowed costs; and (ii) the dollar value of costs not disallowed; and (D)

for which no management decision has been made by the end of the reporting period.

See Table 1 of this report for the status of questioned, unsupported or disallowed costs.

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

See Table 1 of this report for the status of questioned, unsupported or disallowed costs.

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

No management decisions 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. The information described under section 804(b) of the Federal Financial Management Improvement Act of 1996.

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

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

Another Office of Inspector General initiated an external peer review of the FCC Office of Inspector General during the reporting period. The final report is expected to be issued in the next reporting period. See Appendix A of this report for information on the status of the prior peer review of FCC Office of Inspector General.

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

No recommendations from a prior peer review by another Office of Inspector General remain open or partially implemented.

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

No peer review of another Office of the Inspector General was conducted during the reporting period, and no recommendations remain open for any peer reviews that we conducted in a prior period.

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

The total number of investigation reports during the reporting period is set out in the Office of Investigation Section. In this reporting period, we referred no cases to the Department of Justice for criminal prosecution. No person was referred to State or local prosecuting authorities for criminal prosecution, and one information was filed during the reporting period.

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

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

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

No investigation was conducted by the Office involving a senior Government employee where allegations of misconduct were substantiated.

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

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

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

OIG did not experience any attempt by FCC management to interfere with the independence of the Office.

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

In February 2018, OA terminated the audit of Universal Service Corporation (USAC) Compensation Payments (Project No. 17-AUD-11-05). During the planning phase of our audit, USAC informed us they had entered into a contract for an independent audit of USAC's procurement and employee compensation practices. Our review of USAC's project showed that the objectives and scope were similar to our announced audit objectives and scope. To avoid a duplication of work on the projects, we terminated our audit. USAC's independent contractor has completed its audit, but the final audit report had not been issued by the end of the reporting period.

TABLE 1

Questioned and Unsupported Costs OIG Audit, Inspection and Evaluation Reports		
Status of OIG Reports with Questioned Costs	Number of Reports	Questioned/ Unsupported Costs
A. No management decision has been made by the commencement of the reporting period.	2	\$123,980
B. Issued during the reporting period.		
C. Management decision made during the reporting period.		
Value of disallowed costs.	1	\$47,286
Value of costs not disallowed.	1	\$76,694
D. Management decision not made by the end of the reporting period.		

APPENDIX A

Peer Review Results

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

During a prior reporting period, the Special Inspector General for Troubled Asset Relief Program (SIGTARP OIG) reviewed FCC OIG Office of Audit's (OA) system of quality control. Based on their review, SIGTARP OIG determined that OA's system of quality control in effect for the year ended March 30, 2016 was suitably designed to provide reasonable assurance that OA is performing and reporting in conformity with applicable professional standards in all material respects. OA received a peer review rating of "Pass." There are no outstanding SIGTARP recommendations.

During this reporting period, Small Business Administration (SBA) OIG initiated a peer review of OA's system of quality control for the year ended March 30, 2019. The peer review was still in process at the end of the reporting period. The results of SBA OIG's peer review will be summarized in the next reporting period.

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