
**Federal Communications Commission
Office of Inspector General**



Semiannual Report to Congress

April 1, 2020—September 30, 2020

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 6, 2020

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, 2020. 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 will be located in Washington, D.C. at 45 L Street, NE once the move to new FCC headquarters, currently in progress, is completed. 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:

Johnny Drake, AIG for Management

Sharon R. 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, 2020 through September 30, 2020, as well as its goals and future plans.

OFFICE OF MANAGEMENT

Office Staffing

Currently our office consists of 48 experienced administrative and professional staff including auditors, investigators, investigative attorneys, paralegals, an IT specialist, a contract specialist, a computer forensic investigator, a budget officer and two data analysts. Due to retirements and routine staff turnover, we have initiated a recruiting process, with an emphasis on more junior positions. This will help the office budgetarily, allow us to grow from within, and provide newer hires the benefit of the depth of our staff's knowledge and experience. Further, this approach will help to ensure 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 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, Association of Certified Fraud Examiners, and the National Defense University.

Process Improvement

On August 3, 2020, OIG launched a newly created public-facing website <https://www.fcc.gov/inspector-general>. The new website is a complete overhaul of the previous 10-year old version, reflecting the OIG's current focus. The priority of the redesign project was to provide users a more streamlined and consumable portal to obtain information regarding our mission and accomplishments. Critically, it also draws attention to the FCC OIG Hotline, a vital source of whistleblower complaints that help inform our investigatory and audit activities. The new OIG website provides a more dynamic and contemporary experience, making navigation and searches on the platforms more efficient and effective. For example, the website links easily to outside sites (i.e., Department of Justice press releases) as well as internal FCC sites.

Additionally, the format was developed to facilitate frequent updates, ensuring the available information is current and accurate. For example, newly released documents are now posted on the main OIG page.

Although the redesign effort took several months to complete, staff diligently worked to develop the new site and make live changes without interfering with the online public-facing version. Staff also lent their expertise to help with some unique coding challenges that arose in the course of incorporating new display forms.

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, waste, and abuse 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, the 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.

Statutory Law Enforcement Authority

The Inspector General Act of 1978, 5 U.S.C. app. 3, established criminal investigative jurisdiction for the offices of presidentially appointed Inspectors General. The enforcement powers and responsibilities of presidentially appointed Inspectors General were enhanced to provide firearms, arrest, and search warrant authorities to investigators with the enactment of section 812 of the Homeland Security Act of 2002.

Pursuant to the guidelines, OI planned to send two investigative attorneys to the Basic Criminal Investigator Training Program, however the course was cancelled as a result of the COVID-19 pandemic. Once the courses fully resume, we will again arrange for this training. Subsequently, and after ensuring compliance with the IG Act and the Attorney General’s guidelines, OI plans to utilize its statutory law enforcement authority to further its already robust work in the prevention and deterrence of fraud, waste, and abuse of FCC programs.

Activity During This Period

Cases pending as of April 1, 2020..... 48
New Cases..... 4
Cases Closed..... 1
Cases pending as of September 30, 2020..... 51

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, 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* provides funding to ensure robust, affordable voice and broadband service, both fixed and mobile, are available to Americans throughout the nation. Under the Intercarrier Compensation (ICC) Transformation Order, issued in 2011, the Rate-of-Return Carriers Reform Order issued in 2016 and the subsequent series of Commission Connect American Fund (CAF) orders over the last nine years, the High Cost program has been transitioning its support to multi-purpose networks capable of fixed and mobile broadband and voice services in rural, insular and other high cost areas and phasing out support for voice-only networks. During this transition, the CAF program is using separate support mechanisms for the legacy High Cost program and the new CAF programs. The CAF relies on incentive-based, market-driven policies, utilizing methodologies such as competitive bidding, to distribute High Cost USF in a more efficient and effective manner. Funding for CAF, including legacy High Cost Program support was \$5 billion in calendar year 2019.

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 E-rate funding year 2019, USAC received over 36,400

applications from schools and libraries, seeking over \$2.89 billion in support. In calendar year 2019, USAC disbursed over \$1.9 billion in E-rate support.¹

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. In 2019, USF disbursement authorized support totaled more than \$980 million.

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 3,400 contributors submitted total contributions of approximately \$8.4 billion in 2019.

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 routinely work 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 ongoing universal service investigations are not known to the public and even some closed investigations cannot be disclosed because of sensitivities that could impact related

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.

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. We have, however, begun to disseminate information that can be made publicly available more widely, with the expectation that details of our work will serve as a deterrent against future fraud. In addition to posting news releases on the FCC OIG’s webpage, response to OI’s request, USAC has also been posting OI headlines, such as press releases and other significant items, to USAC’s website.

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

Lifeline Program

OIG’s Letter to Public Utility Commissions

OI’s Lifeline Investigations team sent letters to the leadership of state and territorial public utility commissions seeking to strengthen its ongoing relationships with these important partners. Frequently, these entities are the first to receive complaints and concerns regarding the Lifeline program (and other FCC-administered programs) from beneficiaries and the public. Thus, OIG seeks to increase information sharing by these commissions in furtherance of our mandate to combat fraud, waste, and abuse in FCC programs. This outreach marks an important step as OIG seeks to expand its dialogue with stakeholders outside of the FCC.

Deceased Subscriber Recoveries

As discussed in prior reports, OI conducted investigations after discovering a number of ETCs enrolled deceased individuals into the Lifeline program. Among the resulting remedial actions, our office recommended that USAC recover funds disbursed to several ETCs on behalf of the deceased individuals. Although funds have been recovered from two ETCs, the recovery process for the remaining entities has not yet been completed. OI first recommended that USAC seek recovery from at least two of the remaining ETCs more than a year ago.

Finally, in addition to continuing to conduct investigations and proactive analyses, the OI Lifeline Investigations team recently recommended that USAC recover payments made to an

ETC in connection with providing duplicate Lifeline benefits to more than three thousand subscribers in California.

E-Rate Program

Ongoing E-rate Investigations

OI's E-rate Investigations team continues its work on ongoing investigations of E-rate service providers, recipients and consultants. OI has continued to open new investigations and has been assisting DOJ and United States Attorney's Offices around the country to pursue civil and criminal fraud cases in the E-rate program.

New York Based Service Providers, Consultants and School Officials

The sentencings of Peretz Klein, Susan Klein, Ben Klein, Sholem Steinberg, Simon Goldbrener, Mosche Schwartz, and Aron Melber originally scheduled for May and June 2020 were moved to October and November 2020. All seven defendants pleaded guilty to defrauding the E-rate Program in February 2020.

Former Kentucky Based Vendors

The trial of Charles A. "Chuck" Jones in Memphis, TN on wire fraud and conspiracy charges has been reset to June 7, 2021. The sentencing of Mark J. Whitaker of Murray, Kentucky, was rescheduled to a later date. Whitaker pled guilty in federal court in Memphis, TN in February 2020, to concealing a decade-long E-rate program wire fraud scheme (18 U.S.C. § 4) and admitted to actively concealing a scheme by his co-defendant, Jones, to defraud the E-rate program.

AutoExec Computer Systems, Inc.

In December 2019, John Comito, the CEO of Staten Island-based AutoExec Computer Systems, Inc., was arrested after being charged with mail and wire fraud. As set forth in the indictment and other court documents, from 2013 to 2017, twenty-six elementary, middle and high schools located in the Diocese of Brooklyn contracted with AutoExec to provide telecommunications equipment and services. At least eight schools received no equipment or services, and the

remaining schools received partial, substandard or non-approved equipment and services. In total, Comito overbilled the E-rate program, and defrauded the program and schools, in the amount of approximately \$426,000.

On September 14, 2020, Comito pled guilty to knowingly and intentionally committing wire fraud by submitting a fraudulent E-rate invoice to USAC. When sentenced, Mr. Comito faces a maximum term of imprisonment of 20 years, a maximum fine of the greater of \$250,000 or twice the gross gain, and mandatory restitution to each victim of the fraud.

Subpoena Compliance

In February 2020, the Commission received a subpoena requesting internal information and communications related to certain E-rate requirements. In response to this request, OI investigators spent substantial time locating, reviewing, and redacting the voluminous amount of documents requested.

Creation of an Online Competitive Bid Repository within EPC

Since January 2017, OI has recommended USAC create an online competitive bid repository within EPC. OI has brought this matter to the attention of the FCC Wireline Competition Bureau (WCB) on multiple occasions and included the recommendation in each of the past four SARs. On May 19, 2020, OI learned that the FCC directed USAC to move forward with planning and developing a competitive bidding portal for the E-rate Program. Thereafter, OI updated its recommendation to WCB to include additional specifics learned since OI made its recommendation to WCB nearly three years earlier. OI will continue to monitor the progress of this recommendation.

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

hamstrings both OI and the Commission’s efforts to protect the USF from non-responsible persons and entities.

The Commission issued a “Modernizing Suspension and Debarment Rules” Notice of Proposed Rulemaking in November 2019 and the Notice was published in the Federal Register on January 14, 2020. The Commission is collecting comments and reply comments on its proposed Suspension and Debarment rules through March 16, 2020.

As requested by the Commission, OI provided additional information to the Commission following the close of the comment period.

As noted in the last reporting periods, on April 30, 2019, OI become 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

As noted in the last reporting period, OI became aware that USAC does not employ a mechanism to notify service providers when an applicant seeks to or has cancelled its FCC Form 470. OI informed the Commission’s WCB of this recommendation on April 1, 2019 and was informed in December 2019, that FCC staff have started the process of looking into the feasibility of adding a status filed for the FCC Form 470 when it has been cancelled.

Rural Health Care Program

OI has continued to see an increase of referrals of potential RHC fraud from the RHC program administrator. OI has utilized both experienced investigators who are also working on E-rate program fraud matters and a newly hired investigative attorneys to assist with the increased case load.

COVID-19 Telehealth Program

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted, providing \$2.4 trillion in economic relief to individuals and businesses throughout the country to address the health, economic, and societal impacts of COVID-19. Included in the CARES Act was \$200 million to the FCC to support health care providers. On March 31, 2020, in an effort to effectuate Congress' intent, the Commission adopted a Report and Order establishing the COVID-19 Telehealth Program.

The CARES Act provides an unprecedented opportunity to assist those facing dire consequences from the COVID-19 pandemic and an extraordinary opportunity for criminals to seize on the massive amount of funding available to defraud the federal government. Multiple examples of such fraud have already been uncovered by various federal agencies throughout the country.

Shortly after the creation of the COVID-19 Telehealth Program, OI provided the Commission with risk mitigation recommendations to ensure the funding is efficiently and effectively disbursed while mitigating the potential for fraud, waste, and abuse. Many of the recommendations were not followed and as a result OI believes there exists a strong potential for fraud, waste, and abuse to occur. In an effort to identify potential wrongdoing, on August 6, 2020, OI requested information from the Commission pertaining to COVID-19 Telehealth applications and the resulting Commission actions.

OI Data Analytics Efforts

OI's data team continues to proactively pursue potential fraud, waste, and abuse of the Universal Service Fund programs. In addition to the ongoing efforts to identify data indicative of fraudulent behavior in the E-rate, Rural Health Care, and Lifeline programs, OI has also begun efforts to begin examining datasets pertaining to USF contributors. As noted in the previous SAR, the results of our data analysts' work in these areas have led to the opening of new cases in this reporting period and are helping to shape OI's investigative strategies.

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. OI investigators are currently engaged in an investigative referral from the Council of the Inspectors General on Integrity and Efficiency alleging IG misconduct.

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 or audit 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. 9088 Hotline contacts. Of these, none were referred to OIG for possible case opening.
2. 63 were referred to FCC Consumer Center or other FCC Bureaus.
3. 919 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 other 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 (also known as Government Auditing Standards or the Yellow Book) and Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Inspection and Evaluation.

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 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. OA contracts with Independent Public Accountant (IPA) firms for most of the mandatory projects. Discretionary projects may be contracted to IPA firms 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 OFID projects are in process and will be summarized in a future reporting period.

Completed OFID Audits and Other Projects

Audit of the Consumer and Governmental Affairs Bureau's Risk Management Strategy for Informal Consumer Complaints FY 2017 and FY 2018 (Project No. 18-AUD-12-08)

OA contracted with an IPA firm to conduct an audit of risk management for the Consumer and Governmental Affairs Bureau's (CGB) processing of informal consumer complaints for fiscal years 2017 and 2018. The audit objectives were to 1) evaluate management's process for identifying internal and external risks; 2) evaluate CGB's risk management strategy and determine if the risks were adequately managed to meet agency goals and objectives; and 3) determine the effectiveness of internal controls established to manage risk.

The audit report included 4 findings and 13 recommendations. The audit found that CGB's risk management strategy was not effective in meeting the FCC's strategic goal and objective for protecting consumers from unwanted and intrusive communications. The audit also found that 1) not all informal consumer complaints were referred to service providers or other FCC Bureaus for investigation, 2) performance achievements reported for the program were not based on CGB's actual processing activities, and 3) CGB needs to improve training for staff that process informal consumer complaints. CGB management concurred with 11 of the 13 audit report recommendations and did not concur with two. The final report was issued May 15, 2020.

Audit of Federal Communications Commission's Compliance with the Improper Payments Elimination and Recovery Improvement Act (Project No. 20-AUD-01-01)

The Improper Payments Elimination and Recovery Improvement Act (IPERIA) requires each agency Inspector General to annually review improper payment reporting in the Agency Financial Report and accompanying materials to determine if the agency is in compliance with IPERIA requirements, as defined in Office of Management and Budget (OMB) Memorandum M-18-20, Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement. OA contracted with an IPA firm for an audit of the FCC's compliance with IPERIA for Fiscal Year 2019. The audit report, issued on June 15, 2020, found that the FCC was non-compliant with the requirements of IPERIA for five of FCC's nine programs. The non-compliant programs were the four USF programs (High Cost, Rural Healthcare, Lifeline, and Schools and Libraries) and the Interstate Telecommunications Relay Services Fund.

The audit report presents 5 findings and 19 recommendations to address the audit findings. Management partially concurred with three of the five reported audit findings and did not concur with two.

OFID In-Process Audits and Other Projects

Federal Communication Commission's FY 2020 Consolidated Financial Statement Audit (Project No. 20-AUD-07-01)

Federal Communications Commission's Federal Information Security Modernization Act Evaluation (Project No. 20-EVAL-07-01)

Federal Communications Commission's FY 2020 Government Charge Card Risk Assessment (Project No. 20-OASP-06-02)

Universal Service Fund Division

USFD conducts audits and inspections of USF program service providers and beneficiaries. USFD is divided into three Directorates: Contributors and Lifeline; High Cost; and E-rate and Rural Healthcare. USFD projects are designed to detect and prevent fraud, waste, and abuse, and promote economy and efficiency in USF programs. USFD performs random and targeted audits and inspections based on our assessments of program risks. Our risk-based approach helps us to identify the most cost-effective audits and conserve our limited resources. When planning projects, USFD communicates with USAC's Internal Audit Division, sharing information such as USF program risks, prior audit results, testing tools, and USF program developments and initiatives.

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

Completed USFD Audits and Other Projects

Performance Audit of Pekin School District 108 Related to Funding Year 2015 (E-rate Program) (Project No. 19-AUD-02-03)

OA contracted with an IPA firm to conduct a performance audit of Pekin School District 108 (District). The objectives of the audit were to: 1) determine if the District complied with FCC

rules and orders applicable to the E-rate program; and 2) report on potential instances of fraud, waste and abuse, if applicable. The final report was issued April 30, 2020.

The audit report includes two findings that address weaknesses in the District's internal control processes. The audit found that the District lacked adequate controls over its competitive bidding process and its management of equipment purchased with E-rate funds. The auditors provided four recommendations to address the findings, including a recommendation that USAC recover funds in the amount of \$10,943. Management concurred with all four recommendations outlined in the report. In addition, the audit identified a matter in which the District's telephone service provider requested and received reimbursement from the USF for ineligible items. Management also concurred with this matter.

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

OA contracted with an IPA to conduct a performance audit of Tempo Telecom, LLC (Tempo). The audit objectives were to determine whether Tempo: 1) complied with FCC rules and orders regarding the USF Lifeline Program; and 2) implemented adequate and effective controls to provide reasonable assurance that USF funds were safeguarded and used for the intended purposes. The audit covered the 12-month period from April 1, 2017 through March 31, 2018 for Study Area Code 229024, Georgia. Tempo received Lifeline funds totaling \$1,597,451 during that period. The final audit report was issued on June 8, 2020.

The audit found that Tempo: 1) did not have adequate procedures for determining the validity of Lifeline subscribers' addresses; 2) did not have adequate subscriber eligibility determination and certification procedures; 3) did not file all required reports with the Georgia Public Service Commission in a timely manner; and 4) submitted an FCC Form 555 (Annual Lifeline Eligible Telecommunications Carrier Certification Form) for calendar year 2017 that was not adequately supported, nor mathematically accurate. Also, Tempo's advertising materials did not disclose the mobile broadband speed provided to its Lifeline subscribers in the state of Georgia. Tempo met the FCC rules regarding broadband speed; therefore, this condition did not rise to the level of and was not disclosed as a reportable finding.

The audit report included seven recommendations, five intended to improve Tempo's internal controls and two requesting that the FCC's Wireline Competition Bureau review, and if appropriate, recover \$6,272 of questioned costs paid to Tempo. The FCC and USAC concurred with the findings and recommendations. Tempo generally did not concur.

In-Process USFD Audits and Other Projects

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

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 No. 19-AUD-02-02)

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

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

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 security (IT) recommendations represent the most significant recommendations from previous semiannual reports for which corrective actions have not yet been completed. Currently there are 13 open IT security recommendations that were identified in prior FISMA and other IT audits and evaluations. The recommendations identified in prior FISMA evaluations address identity and access management, information security continuous monitoring, risk management, and configuration management. 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 identity and access management, data protection and privacy, and incident response.

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, FCC needs to focus on corrective actions to resolve open IT security recommendations in these areas.

Except for the public version of the FISMA report, all IT security reports contain sensitive, non-public information regarding the FCC's information security program and infrastructure. Accordingly, the reports are not released to the public.

*Also, please refer to discussion of Deceased Subscriber Recoveries, page 10, *supra*.*

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.

See Table 1 for a summary of audit reports issued during the reporting period that identified questioned 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.

No report recommendations identifying questioned, unsupported or disallowed costs remained open at the commencement of the reporting period. Therefore, we did not report any recommendations for which a management decision was pending.

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.

No report recommendations identifying funds put to better use were open at the commencement of the reporting period and no such recommendations were issued during the reporting period.

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 audit report, inspection report, or evaluation report falls within this category.

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

No management decision falls within this category.

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

No management decision falls within this category.

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

No report required by 804(b) of the Federal Financial Management Improvement Act of 1996 was 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.

During the prior reporting period, the Small Business Administration (SBA) OIG conducted a peer review of FCC OIG Office of Audit's system of quality control. In the peer review report, dated October 31, 2019, Office of Audit received a peer review rating of "Pass." See Appendix A of this report for additional information on SBA OIG's 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.

One recommendation from a prior peer review by another Office of Inspector General remains open or partially implemented. The SBA OIG's peer review report, dated October 31, 2019, recommended that FCC OIG implement key provisions of the Inspector General Empowerment Act of 2016 by: (1) ensuring that audit reports are posted to its website within three days, and (2) posting all previously issued but unposted reports to its website. We have made significant progress in posting current and previously issued audit reports to the OIG's web page. Because full implementation of this peer review recommendation will require additional staffing and other resources, the target full implementation date for this recommendation is December 31, 2021.

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 by FCC OIG during the reporting period, and no recommendations remain open for any previous peer reviews conducted by FCC OIG. The Council of Inspectors General for Integrity and Efficiency (CIGIE) scheduled the FCC OIG to perform a peer review of the Government Publishing Office, Office of Inspector General (GPO OIG) for the reporting period ending March 31, 2019. The CIGIE Audit Committee approved GPO OIG's request to defer its external peer review due date for one year (not to exceed September 30, 2020) to allow GPO OIG additional time to implement previous peer review recommendations. Therefore, we will perform the peer review of GPO OIG and summarize the results in a future reporting period.

17. Statistical tables showing— (A) the total number of investigative reports issued during the reporting period; (B) the total number of persons referred to the Department of Justice for criminal prosecution during the reporting period; (C) the total number of persons referred to State and local prosecuting authorities for criminal prosecution during the reporting period; and (D) the total number of indictments and “criminal 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 two individuals to the Department of Justice for criminal prosecution. No person was referred to State or local prosecuting authorities for criminal prosecution, and no indictments or informations were 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 its audit of the Universal Service Administrative Company's Compensation Payments (Project No. 17-AUD-11-05) to avoid duplication of work. During the planning phase of our audit, USAC informed us that they had entered into a contract for an independent audit of USAC's procurement and employee compensation practices. Our review of

USAC’s audit plan showed that the objectives and scope were similar to our announced audit objectives and scope. To avoid a duplication of work on FCC OIG and USAC projects, we terminated our audit. USAC’s independent contractor completed its audit work during a prior reporting period, but the final audit report had not been issued by the end of the current reporting period and FCC management has not disclosed the audit results to the OIG.

TABLE 1

Questioned and Unsupported Costs, and Funds Put to Better Use				
OIG Audit, Inspection and Evaluation Reports				
Status of OIG Audit Reports with Questioned Costs	Number of Reports	Questioned Costs	Unsupported Costs	Funds Put to Better Use
A. No management decision has been made by the commencement of the reporting period.	0	\$0		
B. Issued during the reporting period.	2	\$17,215		
C. Management decision made during the reporting period.				
Value of disallowed costs.	2	\$17,215		
Value of costs not disallowed.	0	\$0		
D. Management decision not made by the end of the reporting period.	0	\$0		

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, including the date of the last peer review, outstanding recommendations from prior peer reviews, and peer reviews conducted by the OIG of other OIGs in the semiannual period. Peer reviews are conducted by member organizations of the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

Office of Audit peer review results

During the prior reporting period, the Small Business Administration (SBA) OIG reviewed the FCC OIG Office of Audit's (OA) system of quality control. The SBA OIG determined that OA's system of quality control in effect for the year ended March 30, 2019 was suitably designed to provide reasonable assurance that OA is performing audits and reporting the audit results in conformity with applicable professional standards in all material respects. OA received a peer review rating of "Pass."

SBA OIG's peer review letter of comment, dated October 31, 2019, contained three recommendations that were designed to further strengthen the OA's system of quality control. The OA has completed corrective actions for two of the three peer review recommendations. Corrective actions for one peer review recommendation have been initiated, but they have not been fully implemented. Because closing that recommendation will require additional resources, including staffing, the target implementation date is December 31, 2021.

Office of Audit Peer Reviews of Other OIGs

The CIGIE scheduled the FCC OIG to perform a peer review of the Government Publishing Office, Office of Inspector General (GPO OIG) for the reporting period ending March 31, 2019. The GPO OIG requested CIGIE's approval to defer of the peer review to allow GPO OIG additional time to update its internal policies and procedures, as recommended by the previous peer review. The CIGIE Audit Committee, with the Government Accountability Office's concurrence, approved GPO OIG's request to defer its peer review due date for one year, not to exceed September 30, 2020. We will report the results of our peer review of GPO OIG in a future reporting period.

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Federal Communications Commission
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