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**Federal Communications Commission  
Office of Inspector General**



**Semiannual Report to Congress  
April 1, 2018—September 30, 2018**

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**THE FEDERAL COMMUNICATIONS COMMISSION**



**Left to Right:**

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

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## COVER MEMORANDUM

**DATE:** November 6, 2018

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

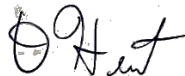
**FROM:** Inspector General

**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, 2018. 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 and Jessica Rosenworcel 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**

**Jay C. Keithley, AIG for Investigations and Counsel**

**Robert McGriff, AIG for Audit**

In this semiannual report, we discuss both the major accomplishments and activities of the OIG from April 1, 2018 through September 30, 2018, as well as its goals and future plans.

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## OFFICE OF MANAGEMENT

### **Office Staffing**

Currently our office consists of 47 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, 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 Investigations has been using Amazon Web Services' (AWS), a FedRAMP compliant secure cloud platform, to store Electronic Records Management System (ERMS) 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 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 are positioned to migrate investigative data from an existing offsite FCC, and directly from the office, to AWS, thus leveraging large dataset data mining tools like PostgreSQL and Redshift cluster database technologies.

Prior to leveraging AWS, OIG's data analytics relied solely on local, on-premise datacenter and virtual servers for running various SQL database management systems. Shifting some of our large dataset processing functions to AWS enables OIG to dynamically scale up our analytical

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capabilities and reduce processing time, even when working with ever larger datasets containing millions of records. Investigative data work previously requiring weeks of processing can now be executed in a matter of hours or days on the AWS platform.

### **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. 11-13.

In addition to our statutorily mandated semiannual report to Congress, we have been providing members of Congress additional semiannual reports regarding open and closed investigations, and audit results, including monetary benefits and unimplemented audit recommendations.

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## 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, DOJ and the FBI.

OI receives and investigates complaints regarding the manner in which the FCC executes its programs, how it handles its operations administratively, and how the FCC conducts its oversight responsibilities. Allegations come from a variety of sources including FCC managers and employees, contractors, program stakeholders, and 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 April 1, 2018 = 77

New Cases = 7

Cases Closed = 13

Cases pending as of September 30, 2018 = 71



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These numbers do not include preliminary reviews of allegations, from the Hotline or other sources, or matters involving minimal analysis of the allegations or evidence.

## **Statistics**

### **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. In 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 areas, primarily rural. 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 the CAF, including legacy High Cost Program support, is statutorily frozen at \$4.5 billion annually.

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. Over 127,000 schools and libraries benefited from the program in calendar year 2017, bringing internet services including expanded WiFi networks and

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high-speed broadband connectivity to millions of students and library patrons. E-Rate authorized funding totaled \$2.65 billion in program year 2017.<sup>1</sup>

The *Rural Health Care Program* (RHC) provides funding to eligible health care providers to advance the quality of healthcare available to patients in rural communities. RHC provides up to \$400 million annually through two programs, the Healthcare Connect Fund and the Telecommunications Program. The Healthcare Connect Fund provides support for high-capacity broadband connectivity to eligible health care providers and encourages the formation of state and regional broadband health care provider networks. The Telecommunications Program ensures that eligible rural health care providers pay no more than their urban counterparts for telecommunications services. Funding for the Rural Health Care Program is capped at \$400 million annually.

The *Lifeline Program* provides support to eligible telecommunications carriers that, in turn, offer discounts on telecommunications services to eligible consumers. Over 10 million low-income households throughout the nation benefited from 2017 program year payments of approximately \$1.26 billion.

*Contributors.* 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 3,000 contributors submitted total contributions of approximately \$7.83 billion in 2017.

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 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

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<sup>1</sup> 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.

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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

As reported in the previous SAR, OIG conducted an analysis of National Lifeline Accountability Database (NLAD) data which showed that ETCs had enrolled tens of thousands of deceased individuals into the Lifeline program. Specifically, OIG’s analysis showed that, since NLAD was implemented in 2014, at least 44,500 already deceased individuals have been enrolled in Lifeline and ETCs have received more than \$4.5M in reimbursements for services provided to these “subscribers.” Also, as reported, OIG presented detailed findings regarding the enrollment of deceased individuals into the Lifeline program to senior leadership at USAC and the Commission.

Pursuant to OIG’s findings and recommendations, USAC incorporated a “death check” as part of the NLAD enrollment process. Since November 2017, USAC’s death check has prevented the enrollment of more than ten thousand deceased subscribers into the Lifeline program, avoiding substantial losses to the USF.

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## USAC Training

After Chairman Pai and USAC’s Acting CEO and General Counsel testified before the Committee on Homeland Security and Government Affairs (“the Committee”) on September 14, 2017, the Committee asked the Commission and USAC to “initiate forensic audits of the top 30 Eligible Telecommunication Carriers” in the Lifeline program. During the procurement process, OI asked USAC for the opportunity to provide information to train the third-party auditors selected and hired to conduct the audits.

On August 23, 2018, two experienced OI attorney-investigators conducted training for the auditors using lessons learned and detailed information regarding Lifeline fraud gathered during OI investigations. Specifically, OI trained the auditors on deceptive practices commonly used by ETCs and agents to enroll ineligible and often unsuspecting individuals. Afterwards, OI disseminated its presentation, “*Lessons Learned: Fraud in the Lifeline Program*,” among additional stakeholders at the Commission and USAC.

## **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 number 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. OI anticipates indictments in multiple investigations during the next reporting period.

### *Rockland County, New York Private Schools*

OI provided support to an investigation conducted by the FBI and the District Attorney for Rockland County that led to a 14-count indictment returned by a federal grand jury in the Southern District of New York in August 2018. The indictment charges Simon Goldbrener, a/k/a “Shimon Goldbrener,” Peretz Klein, Susan Klein, a/k/a “Suri Klein,” Ben Klein, a/k/a “Benzion Klein,” a/k/a “Benzi Klein,” Moshe Schwartz, Sholem Steinberg, and Aron Melber,

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a/k/a “Aharon Melber,” with conspiracy to commit wire fraud and wire fraud, in connection with the E-Rate program.

*Nova Charter School and ADI Engineering*

The trial of Donna Woods, Chief Executive Officer at Nova Charter School (Nova), and Donatus Anyanwu, owner of E-Rate service provider ADI Engineering, both indicted during the previous reporting period for offenses related to a scheme to defraud the E-Rate program, has been scheduled for March 2019.

*Identification of Potential Discount Rate Discrepancies*

OI has begun investigating individual schools where potential fraudulent reporting of National School Lunch Program numbers by applicants to USAC has been identified. The limited results to date have supported OI’s previous suspicions and OI anticipates at least one such investigation resulting in indictments during the next reporting period.

*Creation of an Online Competitive Bid Repository within EPC*

Recently, OI held discussions with both USAC and WCB related to our previous recommendation of the creation of an online competitive bid repository within EPC. Both WCB and USAC are currently assessing this recommendation. OI will continue to pursue this matter and provide input when requested. It was our hope USAC would be able to create this repository during late 2017 or early 2018 in connection with additional changes to EPC anticipated by USAC, but that deadline has passed. OI does not currently know when or if USAC will create this repository.

*Suspension and Debarment Recommendation*

As noted in the previous SAR, 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

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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.

### **Rural Health Care Program**

As more and more health care providers have utilized the Program, the funding cap was reached in funding year 2016. OI investigated several cases of potential fraud in this Program and although none of these cases were accepted for either civil or criminal prosecution, we are considering how the lessons we learned during these investigations can inform recommendations for potential programmatic changes.

### **False Claims Act and Qui Tams**

#### *Broadcaster Improperly Claims Bidding Credits in Violation of the False Claims Act*

On September 4, 2018, a judgment in the amount of \$910,700 was issued against Newman Broadcasting, Inc. in the U.S. District Court for the District of Columbia, resolving a lawsuit filed in 2016 alleging the broadcaster violated the FCA. Newman Broadcasting, a Lake City, Florida corporation, entered into an agreement with the FCC in which the company agreed to pay the FCC for certain rights to certain radio frequencies, less any bidding credit for which it was eligible. During the bidding and application processes from 2005 through 2007, the company certified it satisfied all the requirements and was thus eligible for a 35% new entrant bidding credit. Because Newman Broadcasting was in part controlled by an experienced radio station owner with other stations in the same market, the company was, in fact, knowingly not eligible for the new entrant bidding credit it received and therefore breached its agreement with the FCC. OI investigated, and the Department of Justice prosecuted, the case.

#### *USF and the False Claims Act*

In previous SARs, we reported on several court decisions that have considered the continued use of the FCA in matters involving the USF and Telecommunications Relay Service programs. *See*

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SARs for Oct. 1, 2014 - March 31, 2015; April 1, 2015- September 30, 2105; Oct 1, 2015 - March 31, 2016 and April 1, 2017 – September 30, 2017.

Most problematic has been the case of *Ex rel. Shupe v. Cisco Sys., Inc.*, 759 F.3d 379 (5th Cir. 2014) (*Shupe*) wherein the court held that E-Rate funds (effectively all USF funds) are not funds “provided by” the federal government pursuant to the FCA, and *inter alia*, not subject to the FCA. DOJ believes *Shupe* was wrongly decided and therefore has continued to support the Commission.

We are pleased to report that after years of OIG urging, as of May 2018, the FCC completed the process of transferring USF funds from a third-party banking institution to the Treasury. We expect this action will address the *Shupe* court’s major concern and are hopeful it will be a significant development towards protecting future USF funds.

Regardless, the pall of *Shupe* remains, and until numerous circuit courts reject its reasoning, the continued utility of the FCA for purposes of protected USF Funds remains at risk and the government may lose the ability to recover hundreds of millions of dollars of USF fraud perpetrated prior to any movement of funds to the Treasury. Thus, we continue to believe the most effective solution would be a statutory amendment, presumably to the Communications Act, to clarify that USF and TRS funds are, and always have been, subject to the FCA.

### **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.

During this reporting period, OI Internal Affairs Division, opened XX cases and closed XX case.

#### *Electronic Comment Filing System (ECFS) DDoS Attacks*

OI investigated allegations raised by the FCC’s Chief Information Officer (CIO) David Bray that the Commission’s Electronic Comment Filing System (ECFS) was the subject of multiple

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distributed denial-of-service (DDoS) attacks on the evening of May 7, 2017, following a program aired on Last Week with John Oliver urging viewers to file comments with the FCC. Initially, the investigation focused on whether any computer crimes may have been committed. As the investigation proceeded, the scope was expanded to include an examination of: (1) precisely what happened to cause the degradation of the ECFS system availability that began at 11:30 p.m. EDT on May 7, 2017 (“the event”); (2) the steps the Commission took in response to the event; and (3) the Commission’s explanation of the event. OI reached the following conclusions during the investigation:

- The degradation of ECFS system availability was likely the result of a combination of: (1) “flash crowd” activity resulting from the Last Week Tonight with John Oliver episode that aired on May 7, 2017 through the links provided by that program for filing comments in the proceeding; and (2) high volume traffic resulting from system design issues.
- The FCC did not respond to the event internally in a manner consistent with the severity of the event as stated in the press release by the CIO on May 8, 2017.
- FCC Management was aware The Last Week Tonight with John Oliver program was considering an episode on the Net Neutrality proceeding but did not share that information with the CIO or IT group.
- The conclusion that the event involved multiple DDoS attacks was not based on substantive analysis and ran counter to other opinions including those of the ECFS subject matter expert and the Chief of Staff.
- The FCC did not define the event as a cyber security incident, did not refer the matter to US-CERT in accordance with federal policy, and did not implement internal processes for responding to cyber security incidents.
- The FCC, relying on the CIO’s explanation of the events, provided misleading responses to Congressional inquiries related to this incident. Because of the possible criminal ramifications associated with false statements to Congress, OIG formally referred this matter to the Fraud and Public Corruption Section of the United States Attorney’s Office for the District of Columbia (USAO-DC) on January 4, 2018 and provided a briefing to the Chief of the Fraud and Public Corruption Section USAO-DC on January 18, 2018. On June 7, 2018, after reviewing additional information and interviews, USAO-DC declined prosecution.



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*Improprieties related to the Commission’s review of the merger between Sinclair Broadcast Group, Inc. and Tribune Media Company*

In response to requests from Congress made on November 13 and November 15, 2017, OI conducted an investigation into whether Chairman Pai “has taken actions to improperly benefit Sinclair Broadcast Group (Sinclair),” and “is executing his leadership of the FCC free from influences that compromise his objectivity and impartiality,” especially with regard to the proposed merger of Sinclair and Tribune Media. Our investigation revealed no evidence of impropriety, unscrupulous behavior, favoritism towards Sinclair, or lack of impartiality related to the proposed Sinclair-Tribune Merger.

**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](mailto: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](http://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

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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. 4314 Hotline contacts. Of these, none was referred to OIG for possible case openings.
2. 115 were referred to FCC Consumer Center or other FCC Bureaus.
3. 2 were referred to other agencies.

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## OFFICE OF AUDIT

Under the authority of the IG Act, 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 prevent and detect fraud, waste and abuse. OA projects are conducted in accordance with relevant professional standards, including Generally Accepted Government Auditing Standards (GAGAS), also known as 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 auditing 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 audit, Improper Payments Elimination and Recovery Improvement Act 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 one mandatory project during the reporting period. Three projects were still in process and will be summarized in a future reporting period.

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## OIFD Completed Audits and Other Projects

### FCC Compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012 (Report no. 18-AUD-01-02)

The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) requires each agency Inspector General to review annually management's reporting of improper payments in their Agency Financial Report (AFR) and perform audit tests to determine if the agency is in compliance with IPERIA. OA contracted with an IPA firm to conduct an audit of the FCC's compliance with IPERIA for Fiscal Year 2017. The audit report, issued on May 15, 2018, found that the FCC was non-compliant with the requirements of IPERIA, as defined in OMB Memorandum M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*.

The audit found that the improper payment rate for the Universal Service Fund Lifeline program exceeded the OMB statutory threshold of less than 10 percent of the program's gross outlay. Therefore, the FCC was non-compliant with IPERIA. The audit also found that although FCC management reported fraudulent activity in USF programs in prior years, management did not report fraud as a root cause for any USF improper payments. Additionally, the audit found that the FCC needs to improve the completeness and accuracy of its reporting of improper payments identified outside of USAC's recapture audits. Management agreed with the findings and stated that steps are being taken to address each of the auditor's recommendations.

## OIFD In-Process Audits and Other Projects

Fiscal Year 2018 Consolidated Financial Statement Audit (Project no. 18-AUD-07-05)

Fiscal Year 2018 Federal Information Security Modernization Act Evaluation (Project no. 18-EVAL-07-01)

Inspection of FCC Government Charge Card Program (Project no. 18-INSP-04-01)

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## Universal Service Fund Division

The 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 may be contracted or performed by in-house auditors, depending on available staff and other resources. USFD performs random and targeted audits and inspections of USF program providers and beneficiaries 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. USFD coordinates with USAC's Internal Audit Division when planning audits and other projects to ensure both organizations complement the work of the other, and do not perform duplicate work.

USFD completed four audits during the reporting period. Four projects were in-process at the end of the reporting period and will be summarized in a future reporting period.

### Completed USF Audits

#### Audit of West Baton Rouge Parish Central Office (E-rate) (Report no. 17-AUD-05-02)

The audit objective was to determine compliance with the FCC rules and orders for the E-rate program, as stated in Title 47 of the Code of Federal Regulations (47 C.F.R), for program funding year 2015 (July 1, 2015 through June 30, 2016). The audit report was issued July 12, 2018.

The audit found internal control weaknesses in the West Baton Rouge Parish Central Office's (Central Office) invoicing process, which resulted in the Central Office receiving an overpayment of \$47,286 for services. Additionally, the Central Office's policies and procedures, and internal controls were not designed to prevent, detect or remediate independence violations in the competitive bidding process. We made two recommendations to improve the Central Office's internal controls for the E-rate program. We also recommended that USAC seek recovery of the \$47,286 in unallowable USF reimbursements made to the Central Office. The Central Office concurred with the report's findings and recommendations.

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Connect America Fund, Incremental Support Program (High Cost) (15-AUD-09-11)

The Connect America Fund, Incremental Support Program (Program) was implemented to accelerate broadband deployment in un-served areas. OA contracted with an IPA firm to conduct a performance audit of the program. The primary objective of the audit was to determine whether controls established by the FCC and USAC were effective in ensuring that disbursements of High Cost program funds were for eligible purposes and in the correct amounts. The audit disclosed two deficiencies in the FCC and USAC's internal controls over the Program. We made three recommendations to improve USAC's monitoring of Eligible Telecommunications Companies (ETCs) to ensure the ETCs were in compliance with Program eligibility requirements. We made two recommendations to address deficiencies noted in USAC's monitoring of the ETCs build-out to un-served areas. The FCC generally concurred with the reported findings and recommendations and agreed to take corrective actions.

Interstate Common Line Support Mechanism (High Cost) (16-AUD-01-01)

The Interstate Common Line Support (ICLS) mechanism helps to offset interstate access charges and permit each rate-of-return carrier to recover its common line revenue requirement, while ensuring that its subscriber line charges remain affordable to its customers. OA contracted with an IPA firm to conduct a performance audit of the controls over the ICLS program. The primary objective of the audit was to determine the effectiveness of the processes and controls established by the National Exchange Carrier Association (NECA) and Universal Service Administrative Company (USAC) to ensure the accuracy and eligibility of the ICLS disbursements.

The audit disclosed that internal controls over ICLS payments were not effective. The audit also noted that controls were not adequate to mitigate the inherent risk in the relationship between NECA and telecommunications carriers receiving ICLS support. The audit report provided seven recommendations intended to improve the Program's internal controls. FCC management generally concurred with the audit report recommendations and agreed to take corrective actions.

Adak Eagle Enterprises (High Cost) (15-AUD-02-01)

The USFD conducted a performance audit of Adak Eagle Enterprises, LLC (AEE), a beneficiary of the Universal Service Fund (USF) High Cost Program. AEE provides FCC regulated telecommunication services in remote locations in Adak Island, Alaska. AEE also provides

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services that are not regulated by the FCC, including wireless telephone, cable television, and broadband internet.

The primary objective of the audit was to determine the allowability of AEE's claimed expenses, including allocations of corporate expenses among its regulated and non-regulated entities. Our audit found that some cost reimbursed to AEE from the USF were prohibited by FCC rules, and thus unallowable. Our audit also disclosed that AEE's methodology for allocating common costs may not be in compliance with FCC rules. We recommended that FCC management ensure AEE's accounting procedures, and cost allocation methodologies fully comply with FCC rules and Orders. We also recommended that the FCC direct USAC to recover any USF monies that AEE received as a result of any misallocation of costs among its regulated and non-regulated affiliate companies. FCC generally concurred with the three reported recommendations and agreed to take corrective actions.

#### In-Process USF Audits

Audit of East Central Independent School District (E-Rate) (Project No. 18-AUD-08-06)

Audit of Northeast Colorado Cellular, Inc. (Contributor) (Project No. 16-AUD-05-03)

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).

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## 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 project recommendations represent significant recommendations from previous semiannual reports for which corrective actions have not been completed. Currently there are 17 open IT recommendations, identified in prior FISMA and IT audits, that were reported in prior semiannual reports. The recommendations identified in FISMA projects address risk management, configuration management, identity and access management, and information security continuous monitoring. We consider the recommendations for improving the FCC’s information security continuous monitoring, and identity and access management to be the most significant recommendations. The annual FISMA evaluation testing has shown that the Commission has continued to improve processes within its overall information security program. All FISMA and 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 and Lifeline programs. Progress toward implementing these recommendations appears to be continuing. In this reporting period, OI received a chart from management detailing the status of the Lifeline recommendations. While several recommendations have been adopted,*



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*others are still under consideration. We await a similar status report concerning our E-rate recommendations.*

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.

*Two audit reports, Audit Reports no. 15-AUD-02-01 and 17-AUD-05-02, made recommendations that identified \$123,980 of questioned costs or funds put to better use during the reporting period. 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)

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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.*

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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.

*We did not undergo a peer review by another Office of Inspector General during this reporting period. See Appendix A of this report for information on the status of the prior peer review.*

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.*

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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 informations” during the reporting period that resulted from any prior referral to prosecuting authorities.

*The total number of investigative reports during the reporting period is set out in the Office of Investigations Section. In this reporting period, we referred three cases to the Department of Justice for criminal prosecution. No person was referred to State or local prosecuting authorities for criminal prosecution, and seven indictments were returned 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.

*See discussion of Electronic Comment Filing System (ECFS) DDoS Attacks pages 14-15, supra.*

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.*

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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.

*No inspection, evaluation or audit was closed and not disclosed to the public. No investigation was conducted by the Office involving a senior Government employee that was closed and not disclosed.*

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**TABLE 1**

<b>Questioned and Unsupported Costs</b>		
<b>OIG Audit, Inspection and Evaluation Reports</b>		
<b>Status of OIG Reports with Questioned Costs</b>	<b>Number of Reports</b>	<b>Questioned/ Unsupported Costs</b>
A. No management decision has been made by the commencement of the reporting period.		
B. Issued during the reporting period.	2	\$123,890
C. Management decision made during the reporting period.		
Value of disallowed costs.		
Value of costs not disallowed.		
D. Management decision not made by the end of the reporting period.	2	\$123,890

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## 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 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 the 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."

No recommendations from a prior peer review by another OIG remain open or partially implemented.

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Federal Communications Commission  
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