
FCC OIG

25th Anniversary

Celebrating 25 Years of Public Service

SEMIANNUAL REPORT TO CONGRESS

For the period

October 1, 2013 — March 31, 2014

Federal Communications Commission
Office of Inspector General

The Federal Communications Commission



Left to Right:

Commissioner Ajit Pai, Commissioner Mignon Clyburn

Chairman Tom Wheeler

Commissioner Jessica Rosenworcel

Commissioner Michael O'Rielly

COVER MEMORANDUM

DATE: March 31, 2014

TO: Chairman Tom Wheeler, Federal Communications Commission
Commissioner Mignon Clyburn
Commissioner Jessica Rosenworcel
Commissioner Ajit Pai
Commissioner Michael O’Rielly

FROM: Inspector General

SUBJECT: Semiannual Report to Congress

In accordance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. 3 § 5, I have attached my report summarizing the activities and accomplishments of the Office of the Inspector General (OIG) during the six-month period ending March 31, 2014. In accordance with Section 5(b) of that Act, it would be appreciated if this report, along with any associated report that you prepare as Chairman of the Federal Communications Commission (FCC), were forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

This report describes audits that have been completed during the preceding six months, as well as those that are in process. OIG investigative personnel continued to address issues referred to this office from a variety of sources including the Department of Justice, and to pursue proactive (self-initiated) investigations. Where appropriate, investigative and audit reports have been forwarded to the Commission's management for action. Additionally, I have described the outstanding issue of OIG’s need for criminal investigators. OIG conducts criminal investigations and therefore requests the proper personnel to conduct same.

This office remains committed to maintaining the highest possible standards of professionalism and quality in its audits, investigations, inspections and consultations and we welcome any comments or suggestions that you might have. Please let me know if you have any questions or comments.



David L. Hunt
Inspector General

Enclosure

25th Anniversary

Celebrating 25 Years of Public Service

Federal Communications Commission Office of Inspector General March 1989 to March 2014

The Office of Inspector General at the Federal Communications Commission was established on March 29, 1989. Our Office was one of the several Offices of Inspectors General established as a result of the 1988 amendments to the Inspector General Act of 1978.

As set forth in the Inspector General Act of 1978 (Public Law 95-452), as amended, the Inspector General (IG) and his office provide objective and independent investigations, audits, and reviews of the agency's programs and operations, and provides recommendations to detect and prevent fraud, waste and abuse. The IG informs the Chairman and Congress of fraud or any serious problems with the administration of programs and operations discovered during audits, investigations and reviews. The IG recommends corrective action, where appropriate, and refers criminal matters to the U.S. Department of Justice and other law enforcement entities for prosecution. However, this "cut and dried" recitation of the responsibilities of the IG and his staff does not begin to describe the panoply of activities the Office of Inspector General (OIG) undertakes to assist the Commission as it continues to improve its effectiveness and efficiency. The past 25 years have been momentous.

The first IG was Mr. John Kamp, who filled the position in an acting role from April to October 1989 and primarily sat up the Office. Mr. James C. Warwick was named the IG in October 1989 and he served until November 1994. Mr. Warwick oversaw the organization of the Office into a model that is by and large still in effect today. He implemented an active program of audits of agency operations. In 1994 he established the Information Technology Audit Directorate, which remains an important element in the Office and in our oversight efforts.

In November 1994, Mr. H. Walker Feaster III was named Inspector General. He has the distinction of being the longest serving IG at the Federal Communications Commission (FCC), serving until January 2006. Mr. Feaster's tenure saw many "firsts" for the Office. He directed the first audit of the FCC's financial statements in 1999; he authorized the first use of contracted audit services; and he oversaw the first audits and investigations of the FCC's Universal Service (E-rate) program. Audits and investigations of the Universal Service program continue to be a major area of work for the Office, and many of the audit tests designed during those first E-rate audits are still in use today.

Dr. Kent Nilsson was the FCC IG from January 2006 to June 2009. Under Dr. Nilsson there was an expansion of the Office's resources, growing the staff from ten employees to over 40 professional and technical staff. Dr. Nilsson oversaw the culmination of an effort initiated under the prior IG to obtain access to the Universal Service Fund to pay for the OIG's oversight of the program, and the Office was provided \$25 million for staffing, travel and training. This allowed Dr. Nilsson to hire an unprecedented number of temporary (limited term) employees dedicated to oversight of the Universal Service Fund. This staffing enabled the Office to undertake more audits and investigations than it had been able to do in the past, and we enjoyed a dramatic increase in our oversight capabilities.

In June 2009, the current IG, Mr. David L. Hunt, was named. Mr. Hunt has continued to build on the accomplishments of his predecessors and to forge new areas of successful oversight and evaluation. Mr. Hunt has overseen the culmination of many years' of investigatory work (his role in the Office prior to being IG was as the Assistant IG for Investigations), most notably in the Video Relay Service program, which has resulted in several successful prosecutions and settlements, millions of dollars of recoveries and hundreds of millions of dollars in savings due to programmatic improvements resulting from the OIG work. Mr. Hunt has continued to expand the capabilities of the Office and the staff by hiring several auditors and technical staff. An exciting accomplishment for the Office in the last year was the establishment of a Computer Forensics Laboratory, equipped with state-of-the-art forensics tools and managed by a senior professional, seasoned in investigatory and analytical techniques.

The office is currently staffed by the Inspector General, a Deputy Inspector General, an Assistant Inspector General for Investigations who also serves as General Counsel to the IG, an Assistant Inspector General for Audits, an Assistant Inspector General for Management, 14 auditors, 12 investigatory attorneys, and 11 administrative and technical staff. Over the years, the FCC OIG has been very successful at meeting our mission to combat and deter fraud, waste and abuse. Since the Office started in 1989, it has issued nearly 700 audit reports, identifying \$158 million in questioned and unsupported costs. We have completed nearly 500 investigations, almost 100 of which have resulted in \$157 million in fines, settlements and restitutions.

As we look to the future, we are both mindful of the good work that provides us a foundation upon which to build and excited about the prospect of expanding our capabilities to do even more to protect the taxpayers' investment in their government. We have several activities currently in progress to accomplish this goal. First and foremost, we are heavily engaged in obtaining the services of criminal investigators, a resource this Office currently does not have, to meet our ever-growing need to support the Department of Justice and other law enforcement authorities. We are working to set up a secured OIG information technology network so as to ensure the security and independence of our information. And we are working with the agency to obtain secure office space for OIG that will help preclude sensitive oversight matters from possibly being compromised.

We would like to thank the Federal Communications Commission, Congress and the American taxpayers for the opportunity to fill this important role, and all of us here at the FCC OIG look forward to the next 25 years of public service!

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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 FCC consists of a Chairman and four Commissioners, who are appointed by the President and confirmed by the United States Senate. Tom Wheeler serves as the Chairman. Mignon Clyburn, Jessica Rosenworcel, Ajit Pai and Michael O'Rielly serve as Commissioners. Most of the FCC's employees are located in Washington, D.C. at the Portals II building, which is located at 445 12th St., S.W., Washington, D.C. 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.A. App. as amended (IG Act) and assisting the Chairman in his continuing efforts to improve the effectiveness and efficiency of the Commission. In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Inspector General (IG), David L. Hunt, reports directly to the full Commission. Management matters are coordinated with the Chairman's office. The IG's staff consists of attorneys, auditors, economists, investigators, management specialists and support personnel. Principal assistants to the IG are: Thomas C. Cline, Deputy IG; Gerald Grahe, Assistant Inspector General (AIG) for Audits; Harold F. Shrewsbury, AIG for Management; and Jay C. Keithley, AIG for Investigations.

This semiannual report includes the major accomplishments and activities of the OIG from October 1, 2013 through March 31, 2014, as well as information on the IG's goals and future plans.

Lastly, OIG has been attempting to recruit and hire criminal investigators (i.e., Job Series 1811). The Chairman and OIG are now in a dialogue regarding criminal investigators. We hope to hire criminal investigators to assist this Office and the Department of Justice in criminal investigations.

OFFICE OF MANAGEMENT

Office Staffing

OIG is comprised of 34 Full Time Equivalent (FTE) professional staff, and seven FTE and one not to exceed (NTE) support staff. The OIG hired one professional and one support staff during this reporting period and there are other hiring actions in process. The current FY2014 OIG budget contains funds sufficient to hire additional staff. The OIG FY2015 budget request included funds to hire additional OIG staff. Congress has supported the increased funding we have requested for more staff for several budget cycles. This increased staffing will help meet needs, including auditors and administrative personnel.

We are very much saddened to announce that Andy Cox, our Acquisitions Specialist, passed away in February 2014. Andy is missed by everyone in the office. During this reporting period OIG also had two senior professional staff retire.

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

Internship Program

OIG welcomes college interns throughout the calendar year. OIG currently has two unpaid interns. Our interns have come from schools across the country. These internships have proven to be rewarding experiences for all participants. Students leave with a good understanding of how a government agency operates, and they have the opportunity to encounter challenges while enjoying the rewards that can come from public service. In turn, the OIG has benefited from the students' excellent work performance.

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. Specifically, we perform this activity to evaluate legislative potential for encouraging economy and efficiency while helping to reduce fraud, waste, abuse, and mismanagement.

OFFICE OF MANAGEMENT

In addition to legislative developments, OIG monitors FCC policy development and provides input as appropriate. We have also participated in many surveys and data calls sponsored by the Council of Inspectors General for Integrity and Efficiency and the Recovery Accountability and Transparency Board.

Please see the Appendix to this report for information regarding peer reviews as required by Public Law 111-203.

Modernization Projects

Office Space

OIG office space is in an open area on the 2nd floor of the FCC Headquarters building. Agency employees can casually walk through the OIG office area. OIG is in the process of securing OIG only office space and is in the process of completing a cost analysis to help us and the FCC select the best option to ensure OIG's sensitive work is adequately secure. In addition, we are working to ensure our office space will meet reduced "footprint" requirements for staff, as promulgated by the General Services Administration, and we have volunteered to be a "test case" for space-saving work areas for the FCC.

OIG Information Technology Network Independence

Currently, OIG Information Technology (IT) is on the FCC network. OIG did a needs-analysis focused on OIG IT network data independence. OIG contracted for designing an OIG IT network platform securing OIG data. OIG has hired an IT Specialist to lead the project during the reporting period to lead the project and to manage all of OIG's IT support needs.

OIG Electronic Records Management

OIG is working on a solution for a more efficient and user-friendly way of securing and storing electronic data. OIG data, electronic files and records must be in compliance with the IG Act and in compliance with the Presidential Memorandum entitled, *Managing Government Records*.

OFFICE OF AUDIT

Under the authority of the IG Act, as amended, the Office of Inspector General (OIG) Office of Audit (OA) conducts independent and objective audits, inspections and related activities designed to promote economy, effectiveness and efficiency in Federal Communications Commission (FCC) programs and operations and to prevent and detect fraud, waste and abuse. Audits, inspections and activities are conducted in accordance with relevant professional standards.

OA includes two reporting divisions - the Operations, Financial, and Information Technology Division (OFID) and the Universal Service Fund Oversight Division (USFD).

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

Operations, Financial, and Information Technology Division

OFID conducts audits, inspections, evaluations, and other reviews designed to promote economy and efficiency in FCC operations and to prevent and detect fraud, waste and abuse. Mandatory assignments include the annual financial statement audit, the Federal Information Security Management Act (FISMA) evaluation, and the Improper Payments Elimination and Recovery Act compliance audit. Due to limited staffing, most audits are contracted out to independent public accountants.

Completed Audits and Other Projects

Audit of the FCC Fiscal Year 2013 Consolidated Financial Statements

In accordance with the Accountability of Tax Dollars Act of 2002, the FCC prepared consolidated financial statements for the 2013 fiscal year in accordance with Office of Management and Budget (OMB) Circular A-136, Financial Reporting Requirements. The Chief Financial Officers Act of 1990 (CFO Act), as amended, requires the Inspector General, or an independent external auditor selected by the Inspector General, to audit the FCC financial statements in accordance with government auditing standards issued by the Comptroller General of the United States (GAGAS). OA contracted with KPMG LLP (KPMG), an independent certified public accounting firm, to perform the audit of FCC's FY 2013 consolidated financial statements. The audit was conducted in accordance with GAGAS, OMB Bulletin 07-04, as amended and applicable sections of the U.S. Government Accountability Office (GAO)/President's Council on Integrity & Efficiency (PCIE) Financial Audit Manual.

KPMG issued an independent auditors report with an unqualified opinion on FCC's financial statements, a report on internal controls over financial reporting, and a report on compliance and other matters dated December 13, 2013. KPMG reported that FCC's financial statements were fairly presented in all material respects in conformity with U.S. generally accepted accounting principles.

OFFICE OF AUDIT

The report on internal controls over financial reporting identified two control weaknesses considered to be significant deficiencies. The first significant deficiency related to financial system functionality and integration. FCC implemented a new financial system in October 2011. However, the independent auditor reported that functionality and integration issues continue to exist and as a result certain activity continues to be processed manually in order to maintain the accuracy of system data. The second significant deficiency is related to FCC information technology controls. The auditors identified deficiencies in the FCC's control environment, control activities, risk assessment process, and monitoring activities as it relates to securing FCC's information technology infrastructure. They also noted that because the application of IT is pervasive throughout the FCC, the information technology weaknesses identified may impact the FCC's ability to comply with OMB's internal control objectives for financial reporting. KPMG did not consider any of the deficiencies identified during the audit to be material weaknesses.¹ The FCC response to the draft report concurred with the report recommendations. While management has made improvement as it relates to both of the repeated internal control significant deficiencies, it should be noted that both deficiencies have been reported by financial statement auditors since FY 2005.

The Commission is responsible for complying with laws, regulations, and provisions of contracts applicable to the FCC. To obtain reasonable assurance as to whether the Commission's financial statements are free of material misstatement, KPMG performed tests of the Commission's compliance with provisions of laws, regulations, and contracts that could have a direct and material effect on the determination of financial statement amounts. This testing identified two instances of non-compliance. First, the Commission was not in compliance with the Federal Managers Financial Integrity Act because the current financial systems and processes do not achieve the financial system integration standards set within GAO Standards for Internal Control in the Federal Government. Testing also identified non-compliance with the Debt Collection Improvement Act due to issues with the new system's functionality.

As required by Chapter 4700 of the U.S. Department of the Treasury's Treasury Financial Manual (TFM), the FCC prepared special-purpose financial statements for the purpose of providing financial information to the U.S. Department of the Treasury and the U.S. Government Accountability Office (GAO) to use in preparing and auditing the Financial Report of the U.S. Government. Under contract, KPMG performed an audit of the special purpose financial statements in accordance with GAGAS and OMB Bulletin 07-04 as amended and issued an unqualified opinion. The auditor's report disclosed no significant deficiencies in the internal controls over the financial reporting process for the special purpose statements and no instances of noncompliance.

Fiscal Year 2013 Federal Information Security Management Act Evaluation

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

¹A material weakness is defined as a significant deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

OFFICE OF AUDIT

OIGs are required to annually evaluate agency information security programs and practices. The evaluations must include testing of a representative subset of systems, and based on that testing, an assessment of the agency's compliance with FISMA and applicable requirements. OA contracted with KPMG to perform the FY 2013 evaluation.

During this reporting period, KPMG completed its evaluation and identified 15 findings and offered 68 recommendations. The IT significant deficiency is being reported as part of the Federal Information System Controls Audit Manual work performed as part of the financial statement audit (see above), which is performed in parallel with the FISMA work. Management generally concurred with the recommendations. Our FY 2013 FISMA Evaluation Report was issued on January 8, 2014.

Sole Source Contracts Inspection

On March 26, 2014, OA issued the final report on "Inspection of Sole Source Contract Awards" (Report No. 12-INSP-06-02) on the FCC's award and administration of sole source contracts.

The objectives of the inspection were to (1) determine if sole source contracts were awarded in accordance with provisions of the Federal Acquisition Regulation (FAR) and FCC policies and procedures, and (2) evaluate the adequacy of the design and implementation of internal controls related to the award of sole source contracts. The scope of the inspection included all sole source contracts awarded from January 1, 2011 through April 30, 2012.

The inspection disclosed that the FCC Contract and Purchasing Center did not have procedures in place to fully implement the FAR requirements for awarding sole source contracts. It also disclosed sole source contracts were awarded without proper justification. The FCC concurred with the report recommendations and has initiated corrective actions.

Audit of the FCC Administrative Operations

On February 26, 2014, OA issued the final report on "Audit of FCC Administrative Operations" (Report No. 12-AUD-12-23). OA contracted for this audit consistent with its authority under the IG Act, as amended, including but not limited to sections 2(1)(2) and 4(a)(1).

The objectives of the audit were to 1) evaluate the design and implementation of internal controls; 2) determine if internal controls were adequate to ensure that transactions were properly authorized, adequately documented, and properly accounted for; 3) determine the effectiveness of the AO's programs; and 4) evaluate the adequacy of and compliance with the FCC directives, policies and procedures. The scope of the audit was limited three AO components; Administrative Service Center, Printing and Graphics Services, and Space Management.

The audit report identified two findings and provides six recommendations related to internal controls over record retention and management oversight. Management concurred with the two findings as well as the six associated recommendations.

OFFICE OF AUDIT

Audit of the FCC Compliance with OMB Circular A-130

On February 26, 2014, OA issued the final report on the contracted “Audit of FCC Compliance with Office of Management and Budget (OMB) Circular No. A-130, Revised” (Report No. 12-AUD-12-20). Lani Eko & Company, CPAs, PLLC, conducted this audit consistent with the OIG’s authority under the IG Act, including but not limited to sections 2(1)(2) and 4(a)(1).

The objective of the audit was to determine the FCC’s Information and Technology Center compliance with OMB Circular No. A-130, paragraphs 8, *Policy* and 9, *Assignment of Responsibilities*. The Circular requires agencies to establish and maintain an integrated information technology capital planning and investment control process. The audit covered the period October 1, 2011 through September 30, 2012.

The report identifies six findings and provides ten recommendations to address those findings. Management’s response to the report was considered in finalizing the audit report. FCC management generally concurred with the audit findings and recommendations, and discussed planned corrective actions in its management comments. Due to the sensitive nature of the information contained in this report, it has been marked “Non-Public, For Internal Use Only.”

In-Process Audits and Other Projects

Performance Audit of FY2013 FCC Compliance with the Improper Payments Elimination and Recovery Act of 2010

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

Due to the government shutdown in October 2013, OMB moved the deadline for the Annual Financial Reports (AFR) and Performance and Accountability Reports from November 15, 2013 to December 16, 2013. By its timing that issuance affects the schedule under which the OIG will submit the results of its agency compliance determination as specified in OMB Guidance.

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

Audit of the FCC Red Light Rule: Debt Collection

OA contracted with LEC to perform an audit of part of FCC’s debt collection effort, the FCC’s Red Light Rule, for fiscal years 2011 and 2012. The audit objectives were to:

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

LEC has issued the draft report to FCC management and we are awaiting FCC Management's written response to the report. We anticipate issuing the final report during the next reporting period.

Audit of FCC Civil Monetary Penalties

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

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

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

Audit of 2012 Federal Funds Paid to Telecommunications Relay Service Providers

OA contracted with CliftonLarsonAllen (CLA), an independent accounting firm, to conduct performance audits of five VRS providers. The audit objectives include:

- 1) Determining whether all federal funds paid to providers in 2012 were applied in accordance with TRS program requirements and supported by adequate documentation, and
- 2) Following up on prior year findings and recommendations.

The draft reports have been completed and we anticipate issuing the final audit reports during the next reporting period.

Audit of VRS Providers Relay Service Data Request Projections

OA has contracted with LEC to conduct performance audits of VRS providers' cost projections included in annual data submissions to the Telecommunications Relay Service Fund Administrator. The audit objectives include:

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

OFFICE OF AUDIT

The scope of the audit includes cost projections for program years 2008 through 2012. The audit fieldwork is complete and we anticipate issuing the final audit report during the next reporting period.

Audit of the TRS Fund Administrator

OA has contracted with LEC to conduct a performance audit of the TRS Fund Administrator for the period from July 1, 2011, through December 31, 2012. The audit objectives were to determine whether the Fund Administrator:

- 1) Designed and implemented adequate internal controls to safeguard the fund's assets; and
- 2) Whether they effectively carried out its contracted responsibilities including:
 - Collecting money for the TRS Fund
 - Developing compensation rate recommendations
 - Determining the annual TRS Fund size and Carrier Contribution Factor
 - Making payments to the TRS providers
 - Advising the FCC on cost recovery issues

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

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

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

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

LEC has issued the draft report to FCC management and we are awaiting FCC management's written response to the report. We anticipate issuing the final report during the next reporting period.

Physical Security Assessment

OA contracted with LEC to evaluate the Commission's Physical Security program. The objective of our assessment of the FCC Physical Security program was to perform an assessment of the physical security at the FCC's headquarters in Washington, D.C. and at the Gettysburg, PA facility. The scope of the FCC Physical Security Assessment included:

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

OFFICE OF AUDIT

The draft report has been provided to FCC management for comment and we anticipate the report will be issued during the next semiannual reporting period.

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

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

Audit of the Wireline Competition Bureau

OA contracted with the independent certified public accounting firm of Brown & Company, CPAs, PLLC to conduct an audit of the FCC's Wireline Competition Bureau. Audit objectives include:

- 1) Evaluating the economy, efficiency, and effectiveness of the Bureau in accomplishing its assigned mission;
- 2) Determining the adequacy and effectiveness of Bureau policies and procedures; and
- 3) Evaluating the Bureau's compliance with applicable laws and regulations, as well as related FCC directives, policies, and procedures.

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

Audit of the Public Safety and Homeland Security Bureau

OA contracted with CLA to conduct an audit of the FCC's Public Safety and Homeland Security Bureau. The audit objectives included:

- 1) Evaluating the economy, efficiency, and effectiveness of the Bureau in accomplishing its assigned mission;
- 2) Determining the adequacy and effectiveness of Bureau policies and procedures; and
- 3) Evaluating the Bureau's compliance with applicable laws and regulations, as well as related FCC directives, policies, and procedures.

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

OFFICE OF AUDIT

Universal Service Fund Oversight Division

USFD conducts audits, evaluations, and inspections of providers and beneficiaries designed to prevent and detect fraud, waste and abuse and, and other activities to promote economy, effectiveness, and efficiency in the USF programs, including the following:

The **High Cost Program** provides support to eligible telecommunications carriers that offer rates and services to rural area consumers that are reasonably comparable to rates in urban areas – the program is in transition. The Connect America Fund is designed to transition the program away from providing voice only telephone service to providing multi-purpose networks capable of offering broadband Internet access. Approved disbursements for 2013 were about \$4.17 billion.

The **Schools and Libraries Program**, often called “E-Rate,” provides support to eligible schools and libraries in every U.S. state and territory for telecommunication, telecommunication services, Internet access, and eligible products along with repair and upkeep. Approximately 32,000 eligible entities benefited in 2013, receiving approximately \$2.2 billion in approved disbursements bringing Internet services to millions of students and library patrons.

The **Lifeline Program** provides support to eligible telecommunications carriers that in turn offer discounts on telecommunications services to eligible consumers. Over 14 million low-income households throughout the nation benefited from 2013 program payments of approximately \$1.8 billion.

The **Rural Health Care Program** provides support to eligible rural health care providers — including mobile health centers, hospital pharmacies, and medical training institutions — for telecommunications services and broadband access. For 2013, over 3,600 health care providers in the Rural Health Care Program along with over 3,800 Rural Health Care Pilot Program providers received approximately \$159 million in support.

Contributors. OA is also responsible for providing oversight of the accuracy of USF receipts collected from telecommunications providers of international and interstate telecommunications services referred to as contributors. Over 3,000 contributors submitted total contributions of approximately \$8.75 billion in 2013.

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

Completed Audits and Other Projects

Contributors/Low Income Program

On February 27, 2014, OA issued the final survey report on “Compliance with FCC’s USF Low Income Program Rules United Telephone of the Northwest d/b/a CenturyLink” (Report No. 12-AUD-02-10), disclosing no instances of non-compliance with the Low Income program rules. Survey reports are issued when a decision is made to not expand the survey to a full-scope audit.

OFFICE OF AUDIT

Schools and Libraries/Rural Health Care Programs

On March 31, 2014, OA issued the final report on “Audit Report on the Show Low Unified School District,” (Report No. 13-AUD-12-28). The OA engaged Moss Adams LLP to conduct the audit.

The objectives of the audit were to (1) determine if the beneficiary complied with all applicable FCC’s 47 C.F.R. Part 54.500 to 54.523 rules and related orders, regulations, requirements and instructions and (2) determine if USF programs can be made more effective and efficient.

The audit disclosed the beneficiary did not comply with FCC rules related to (1) record retention, (2) discount rate calculations, and (3) reimbursement matters relative to disbursements made from the USF during funding year (FY) 2009. The report recommends recovery of \$31,802 based on deficiencies in document retention, support of the discount rate, service provider over-billing and cost allocation of eligible and ineligible services and products.

The Show Low Unified School District provided written responses to the findings in the report in which they agreed with the audit findings; however, they do not agree that monies should be recovered.

In-Process Audits and Other Projects

High Cost Program

During this reporting period, effort continued on the development of a statistically valid analysis package for the legacy High Cost and the Connect America Fund programs. The objective of this project is to determine a more efficient method for evaluating high cost data and providing oversight through the use of advanced audit and other analytical techniques. Previous efforts have included selecting companies for audit at random that is not as efficient as statistical analysis and results in a lower probability of audit findings.

Contributors/Low Income Program

On February 19, 2014, OA issued a Low Income program draft report to Budget PrePay, Inc. All of our full-scope Low Income compliance audits also include limited tests of the companies FCC Forms 499-A, Telecommunications Reporting Worksheet to test the reasonableness of the revenues reported for USF contributions. We anticipate issuing the final report during the next reporting period.

We are in the process of revising our audit plan for the Low Income and contributor programs. In developing the new plan, the team has interfaced with Universal Service Administration Company, the USF administrator under contract to the FCC, to identify high risk areas. We have also reviewed prior audit recommendations; program performance data reports; whistleblower reports; recent program changes; and other pertinent information in order to identify additional high risk areas. We anticipate completing the new plan and initiating multiple assignments in the next reporting period.

OFFICE OF AUDIT

Schools and Libraries/Rural Health Care Programs

During this reporting period, effort continued on a White Paper project related to the E-Rate program. Combining previous audit results and reviewing reform efforts combined with a vulnerability assessment/risk analysis procedure, we plan to offer program level comments and recommendations to reform the program. We anticipate issuing a report in the next reporting period.

During this period, OA contracted with CLA for a performance audit of the Parker Unified School District. The objectives of the audit are to (1) determine if the beneficiary complied with all applicable FCC's 47 C.F.R. Part 54.500 to 54.523 rules and related orders, regulations, requirements and instructions and (2) determine if USF programs can be made more effective and efficient. Fieldwork is complete and we expect to receive and issue the final report during the next reporting period.

OFFICE OF INVESTIGATION

OIG Office of Investigation (OI) covers a wide range of topics touching on a myriad of aspects of the FCC's mission and programs. Most significantly, our investigations often address allegations of criminal misconduct or civil false claims. We deal with complex cybercrime investigations, large criminal conspiracies, and matters involving complex financial transactions throughout the United States and its territories. OI has relied upon its highly-trained staff and newly updated forensics capabilities. OIG is also grateful for all outside criminal investigator support.

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

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

OI, like most government offices, has an 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 very high priority.

Activity During This Period

At the outset of this reporting period, 84 cases were pending. Over the last six months, 29 cases have been closed and 18 opened. As a consequence, a total of 73 cases are pending. These numbers do not include preliminary reviews of allegations, from the Hotline or other sources, or matters involving minimal analysis of the allegations or evidence.

Statistics

Cases pending as of October 1, 2013	84
New Cases	18
Cases Closed	29
Cases pending as of March 31, 2014	73

Significant Activities

Some of the Office's significant activities are described below. However, we discuss investigations only when and if information may be made public without negative impact on law enforcement activities, including criminal prosecutions, and without divulging investigative techniques. Thus, many matters could not be considered for inclusion in this summary.

OFFICE OF INVESTIGATION

Investigations into Fraud in the Federal Universal Service Program

The bulk of the work of OI involves investigating and supporting criminal and civil investigations of fraud in the FCC's federal universal service program. The AIGI and Investigations staff work routinely with other state, local and federal agencies in these matters. These coordinated investigatory efforts, especially those involving DOJ and various U.S. Attorneys, have resulted in many successful civil settlements and criminal convictions.

Most of our on-going universal service investigations are not known to the public and even some closed investigations cannot be disclosed because of sensitivities that could impact related ongoing matters. Following successful prosecutions from OI investigations, FCC's Enforcement Bureau (EB) initiated several suspension proceedings.

Plea and Sentencing for Former Head of IT for the City of Lawrence

On December 17, 2013, the United States District Court for the District of Massachusetts sentenced Bryan Cahoon to serve 12 months in prison, followed by a one-year period of supervised release. In addition, the court ordered Cahoon to pay \$465,000 in restitution, \$333,306 of which is to be paid to the Universal Service Fund, and a \$100 special assessment. Cahoon's sentencing followed his June 28, 2013 guilty plea to one count of fraud and theft of federal funds in connection with the E-Rate Program.

The activities that formed the basis of Cahoon's guilty plea were conducted while Cahoon was employed first as the Director of the Information Technology Department (IT Department) for the City of Lawrence (COL), Massachusetts and later as *de facto* IT Director while working as a city subcontractor. From early 2008 through December 2009, Cahoon had individuals submit bogus quotations for city contracts and provided bidding information and instructions to his friends and business associates, who were then awarded at least eight city contracts. Cahoon also hired friends and associates to perform cabling and rewiring work for the COL as paid interns for the IT Department. Additionally, Cahoon subcontracted work through his company on several COL projects from another COL contractor and used COL paid interns and contractors to perform this subcontracted work, resulting in COL being double billed for work.

In February 2014, the FCC suspended Cahoon from participating in activities associated with the E-rate Program, and the FCC has commenced debarment proceedings against Cahoon.

Investigation into Fraud in the Federal Communications Commission Telecommunications Relay Service

On March 13, 2014, two defendants were indicted in furtherance of OIG's continuing work with the Criminal Division of DOJ and the FBI in their ongoing investigation of fraud on the Telecommunications Relay Service (TRS) Fund program. Samuel Hawk, former owner of Hawk Relay LLC, a previously certified provider of video relay service (VRS) and Bryce Chapman, were indicted on multiple counts including mail fraud and conspiracy. They participated in various and elaborate minute-pumping schemes, several under the guise of "marketing," that caused false and fraudulent VRS calls to be made and submitted for reimbursement to the TRS Fund.

With these indictments, the total number of people and business entities indicted for VRS-related fraud increases to 31.

IP Relay-related False Claim Act Investigation

OFFICE OF INVESTIGATION

The FCC OIG Investigations team concluded its continuous support to DOJ - Civil Division in its prosecution of a *qui tam* against AT&T for allegedly defrauding the TRS fund in its provision of IP Relay. After OI determined that as much as 95% of AT&T's IP Relay calls were fraudulent, made largely by Nigerian scammers attempting to commit credit card fraud and identity theft, DOJ, under the Federal False Claims Act, intervened and sought damages of over \$40 million. As a result of the joint OIG/DOJ investigation, EB initiated an enforcement action that was subsequently settled for \$18.25 million - an amount likely far greater than otherwise would have been the case. The government settled the *qui tam* on November 7, 2013, for \$21.75 million, which was offset by the amount of the EB settlement. Claims for IP Relay compensation have fallen by over 50% (over 2 million minutes a month) since the OIG investigation brought to light the fraud and abuses that were pervasive within the industry.

Internal Affairs

The IG is authorized by the IG Act, as amended, to investigate allegations of fraud, waste and abuse occurring within FCC programs and operations. Matters of possible wrongdoing are referred to OI 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 5 cases and closed 24 cases. The team has made great progress, substantially closing the significant backlog of outstanding cases that had been pending from previous years. The team is now working current cases from recent periods.

Computer Forensics Lab

In December 2012, OIG established a computer forensics laboratory within the Office of Investigations. The computer forensics laboratory was created to provide laboratory and field support for digital evidence seized or surrendered to OIG or other law enforcement agencies working with the OIG. Typical digital evidence forensic support services include computer and computer storage examination, volatile and flash memory storage device examination, on-site computer hard drive imaging, expert witness testimony, data analysis to determine evidentiary value, and technical training. The computer forensics laboratory is staffed with one full-time computer forensics investigator.

During the reporting period, the computer forensics laboratory provided digital forensic support to several investigations. Examples of support to investigations are as follows:

- The computer forensics laboratory obtained, processed, and examined a large amount of digital evidence from two computer workstations, Outlook email accounts, and network shares.
- The computer forensics laboratory also completed the forensic examination of digital evidence and initiated the collection of additional digital evidence as part of a joint investigation.

In addition to supporting investigations, the computer forensics laboratory validated a number of computer forensic tools and processes. During this reporting period, the computer forensics laboratory performed the following validation work:

OFFICE OF INVESTIGATION

- Validated that the Information Technology Center help desk process for wiping IronKey USB flash drives by confirming that the process effectively removes residual data from drives previously used by OIG staff.
- Validated the imaging and drive wiping functionality of the Tableau Model TD2 Forensic Duplicator, a standard practice for new forensic equipment.

Also during the reporting period, the computer forensics investigator completed the recertification process for the Certified Forensic Computer Examiner (CFCE) certification offered by the International Association of Computer Investigative Specialists (IACIS) and attended a course on Cyber Insider Threat Analysis at the Defense Cyber Investigations Training Academy (DCITA).

Office of Inspector General Hotline

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

Consumers who have general questions or issues not related to fraud, waste and abuse, should contact the FCC's Consumer & Governmental Affairs Bureau ("CGB") at www.fcc.gov/cgb, or contact the FCC's Consumer Center by calling 1-888-CALL-FCC (1-888-225-5322) voice or 1-888-TELL-FCC (1-888-835-5322). CGB develops and implements the Commission's consumer policies, including disability access. The FCC Consumer Center accepts public inquiries, informal complaints, and questions regarding cable, radio, satellite, telephone, television and wireless services.

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

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

During the current reporting period, OIG received 5,155 Hotline contacts. Of these:

- 1) 22 were referred to OI for possible case openings;
- 2) 278 were referred to FCC Consumer Center;
- 3) 305 were referred to other agencies including the FTC; and
- 4) 4,550 were determined to lack merit for referral or further investigation by OIG.

REPORTING REQUIREMENTS

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

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

Please refer to the sections of this report titled “Universal Service Fund Oversight” and “Investigations.”

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

Please refer to the section of this report titled “Universal Service Fund Oversight” and “Investigations.”

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

No significant recommendations remain outstanding.

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

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

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

No report was made to the Chairman of the FCC under section (6) (b) (2) during this reporting period.

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

Each audit report issued during the reporting period is listed according to subject matter and described in the “Audit Areas” section.

7. A summary of each particularly significant report.

Each significant audit and investigative report issued during the reporting period is summarized within the audits and investigations sections.

REPORTING REQUIREMENTS

8. Statistical tables showing the total number of audit reports with questioned costs and the total dollar value of questioned costs.

See Table 1 to this report.

9. Statistical tables showing the total number of audit reports with recommendations that funds be put to better use and the total dollar value of such recommendations.

We issued no reports with recommendations that funds be put to better use during the reporting period.

10. A summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of the reasons why such a management decision has not been made, and a statement concerning the desired timetable for achieving a management decision on each such report.

No audit reports fall within this category.

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

No management decisions fall within this category.

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

No management decisions fall within this category.

13. Information described under section 05(b) of the Federal Financial Management Improvement Act of 1996.

No reports with this information have been issued during this reporting period.

TABLE 1**Table 1: OIG Reports With Questioned Costs**

Status of Inspector General Reports with Questioned Costs	Number of Reports	Questioned Costs	Unsupported Costs
A. No management decision has been made by the commencement of the reporting period.	3	\$1,100,000	
B. Issued during the reporting period.	1	\$32,802	
C. Management decision made during the reporting period.	2	\$293,699	
Value of disallowed costs.			
Value of costs not disallowed.			
D. Management decision not made by the end of the reporting period.	4	\$1,132,802	
E. Management decision made within six months of issuance.	3	\$1,100,000	

APPENDIX

Results of Peer Reviews

The objective of the external peer review is to determine whether, for the period under review, the reviewed OIG audit organization's system of quality control was suitably designed and whether the audit organization is complying with its quality control system in order to provide the OIG with reasonable assurance of conforming to applicable professional standards. Peer reviews are conducted in accordance with the guidelines issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE).

Our most recent peer review was conducted by the Government Printing Office (GPO) Office of Inspector General and completed on September 24, 2013. We are pleased to report that we received a peer review rating of "pass." Two recommendations were noted in the letter of comment accompanying the peer review report. GPO OIG recommended we update our Audit Manual to include all auditing standard requirements and that we ensure audit recommendations are tracked and resolutions are documented. We have initiated corrective actions for these matters.

We conducted an external peer review of the Federal Housing Finance Agency (FHFA) OIG during the reporting period. The FHFA OIG received a "pass" rating. We did not identify any material weaknesses and there were no restrictions on the scope of our review. We did identify one finding and recommendation which will further enhance its quality control system. Although FHFA OIG's quality control system was well designed, we concluded the monitoring could be enhanced with full implementation of its quality control plan. We recommended FHFA OIG enhance its quality control monitoring activities by ensuring full implementation of its quality control plan related to the review of all GAGAS requirements in at least one selected audit annually. We reported the results of our review on March 20, 2014.

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Report fraud, waste or abuse to:

Email: Hotline@FCC.gov

Call Hotline: 202-418-0470

888-863-2244