
**Federal Communications Commission
Office of Inspector General**



**Semiannual Report to Congress
October 1, 2018—March 31, 2019**

THE FEDERAL COMMUNICATIONS COMMISSION



Left to Right:

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

COVER MEMORANDUM

DATE: May 2, 2019

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

FROM: Inspector General

SUBJECT: Semiannual Report to Congress

In accordance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. 3 § 5, I have attached my report summarizing the activities and accomplishments of the Office of the Inspector General (OIG) during the six-month period ending March 31, 2019. In accordance with Section 5(b) of that Act, it would be appreciated if this report, along with any associated report that you may prepare, be forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

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

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



David L. Hunt
Inspector General

Enclosure

TABLE OF CONTENTS

INTRODUCTION 4

OFFICE OF MANAGEMENT 5

Office Staffing..... 5

Process Improvement 5

Legislative and Policy Matters..... 6

OFFICE OF INVESTIGATION..... 7

Activity During This Period..... 7

Significant Activities..... 8

Office of Inspector General Hotline..... 14

OFFICE OF AUDIT 16

Operations, Financial, and Information Technology Division..... 16

Completed OFID Audits and Other Projects..... 16

OFID In-Process Audits and Other Projects 19

Universal Service Fund Division 19

Completed USFD Audits and Other Projects..... 20

USFD In-Process Audit and Other Projects..... 21

REPORTING REQUIREMENTS 22

TABLE 1

OIG Reports with Questioned Costs..... 28

APPENDIX A

Peer Reviews Results..... 29

INTRODUCTION

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

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

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

Stephen Ebner, AIG for Management

Sharon Diskin, Acting AIG for Investigations and Counsel to the IG

Robert McGriff, AIG for Audit

In this semiannual report, we discuss both the major accomplishments and activities of the OIG from October 1, 2018 through March 31, 2019, as well as its goals and future plans.

OFFICE OF MANAGEMENT

Office Staffing

Currently our office consists of 45 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.

I would like to mention one retirement in particular – that of Jay Keithley, who retired as the AIGI and Counsel to the IG. Mr. Keithley served a vital role within OIG including, among his duties, coordinating with other agencies such as DOJ and federal/local law enforcement. Though duly prepared for, his loss will be dearly felt.

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 continue to migrate investigation data from the existing FCC datacenter at the Allegany Ballistic Lab (ABL), in West Virginia and directly from the office to AWS allowing us to leverage large dataset data mining tools like PostgreSQL and Redshift columnar cluster database technologies. Shifting some of our large dataset processing functions to AWS enables OIG to dynamically scale up our analytical capabilities and reduce processing time, even when working with ever larger datasets containing millions of records.

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

Prior to leveraging AWS, OIG's data analytics relied solely on a local on-premise datacenter and virtual servers for running various SQL database management systems. Prior to AWS, the OIG data analytics team was reliant on, and often hindered by, existing system specifications (e.g, available licenses, available memory and storage resources, supported operating systems). AWS enables the OIG data analytics team to quickly respond to changing investigative requirements and dynamically scale, both vertically and horizontally, its capability to load, store, and process increasing datasets, some numbering in the tens of billions of records.

Legislative and Policy Matters

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

Further, during the reporting period, we continued to share updated recommendations to prevent and detect fraud in Universal Service programs with Commission and Universal Service Administrative Company (USAC) staff. *See infra* pp. 10-13.

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.

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

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

Activity During This Period

Cases pending as of October 1, 2018.....	71
New Cases.....	4
Cases Closed.....	16
Cases pending as of March 31, 2019.....	59

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

Significant Activities

Several of the Office's significant activities are described below. However, we discuss investigations only when and if information may be made public without negative impact on law enforcement activities, including criminal prosecutions, and without divulging investigative techniques. Thus, many matters could not be considered for inclusion in this summary. During this reporting period, in particular, we have been working on numerous investigations upon which we cannot report, including matters before a Grand Jury and sealed *qui tams*.

Investigations into Fraud in the Federal Universal Service Program

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

The *High Cost Program*, which is being reformed and transitioning to the Connect America Fund (CAF), provides support to certain qualifying telecommunications carriers serving high-cost 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. In funding year 2018, USAC received over 35,000 applications from schools and libraries for a total of \$2.77 billion in E-rate Program funding support. E-Rate authorized funding totaled more than \$2.1 billion in calendar year 2018.¹

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

The *Rural Health Care 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 9 million low-income households throughout the nation benefited from 2018 program year payments of approximately \$1.16 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 3,300 contributors submitted total contributions of approximately \$8.12 billion in 2018.

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

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

Lifeline Program

Lifeline Investigations Ongoing

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

In October, the Agency responded to a number of recommendations OIG made concerning the mitigation of fraud in the Lifeline program. In December, OI investigators made a presentation to provide Agency stakeholders with supplemental information regarding several specific recommendations including the registration of ETC sales agents, risk-scoring Lifeline enrollments and enhancement of third-party identity checks. OIG remains in dialogue with the Agency concerning these recommendations and expects to report on the disposition of these recommendations in the next reporting period.

In numerous past and current investigations, OIG has found that ETC sales agents are a frequent entry point of fraud in the Lifeline program. Since 2016, OIG has recommended the Agency and USAC register sales agents who use NLAD and enroll program participants. Agent registration will deter agents who might wish to engage in fraud and provide an additional tracking mechanism for those who do. The Agency and USAC are now implementing an agent accountability database. OI investigators have shared findings from investigations and other feedback with developers to make the database more effective at tracking and disincentivizing agent fraud.

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 DOJ and U.S. Attorneys' Offices around the country to pursue civil and criminal fraud cases in the E-Rate program. OI anticipates indictments of multiple individuals 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, charging seven individuals with conspiracy to commit wire fraud and wire fraud, in connection with the E-Rate program. OI has continued to support this investigation during the current reporting period.

Former Kentucky Based Vendor Indicted

On February 5, 2019, Charles A. “Chuck” Jones, the part owner of two now-dissolved technology companies, Technology Associates, Inc. and Integrated Computer Solutions, Inc., and his associate Mark J. Whitaker of Murray, Kentucky, were indicted in Memphis, TN on federal criminal charges of conspiracy to commit wire fraud and wire fraud. The case was initiated by OI and investigated by OI investigators with the assistance of the FBI.

According to the indictment, Jones and Whitaker conspired with an individual identified as A.J., to whom Jones gave money and other things of value in return for A.J.’s assistance. The co-conspirators used A.J. and A.J.’s position with schools in Tennessee and Missouri to violate E-rate Program rules. Additionally, the co-conspirators submitted and caused to be submitted fabricated documents and made false statements and representations to the E-rate Program administrator, which included assertions Jones’s companies had invoiced schools for the proper co-payment amounts. These actions were taken to circumvent E-rate rules and review and to obtain payments from USAC to Jones’s companies. Jones’s companies received approximately \$8.5 million from the E-rate Program and Jones used funds from the companies’ bank accounts for his own benefit.

The trial in this matter is scheduled for January 2020.

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, indicted in December 2017 for offenses related to a scheme to defraud the E-Rate program has been rescheduled for June 2019.

Utilization of USAC’s Updated Information Collection and Retention Practices

In the April 1, 2017 – September 30, 2017 SAR, OI highlighted a solution developed by USAC, with OI's input, to increase USAC's collection and retention of certain information in its EPC portal. As anticipated, the information now being collected by USAC has assisted in the strengthening of cases where fraud was previously identified and has resulted in the proactive development of cases currently being actively investigated.

Identification of Potential Discount Rate Discrepancies

OI continued its investigation into individual schools where potential fraudulent reporting of National School Lunch Program numbers by applicants to USAC was identified. The limited results to date have supported OI's previous suspicions and revealed additional instances of fraudulent activity. The matter OI referenced in the previous SAR as likely to result in indictments during this reporting period is still being actively investigated.

Creation of an Online Competitive Bid Repository within EPC

Since January 2017, OI recommended USAC create an online competitive bid repository within EPC. OI brought this matter to the attention of WCB on multiple occasions and included the recommendation in each of the past four SARs. To date, OI does not believe any progress has been made on this recommendation and OI does not currently know if USAC will create this repository.

Suspension and Debarment Recommendation

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

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.

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.

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

On August 24, 2018, OI released a Report of Investigation in response to requests from Congress that we conduct an investigation into the conduct of FCC Chairman Ajit Pai regarding his interactions with the White House concerning the proposed merger of Sinclair and Tribune Media. *See* SAR April 1, 2018-September 30, 2018, p. 16. In response to a further request from Representative Frank Pallone, Jr., Ranking Member of the House Committee on Energy and Commerce, OI conducted an investigation to determine whether Chairman Pai acted improperly with respect to the request from Congress that he disclose information related to his interactions with the White House regarding the proposed merger, or whether he made material omissions at the July 25, 2018, House Energy and Commerce Committee hearing or at any other time, related to the proposed merger. Our investigation revealed that he did not. Further, our investigation did not reveal evidence of any other White House communications with FCC staff on the matter.

Other Matters

FBI Washington Field Office (WFO) Cyber Task Force

In November 2018, OI executed a Memorandum of Understanding with the FBI pursuant to which a computer forensics investigator with OI will participate as a task force member on the

FBI Washington Field Office Cyber Task Force. The FBI established a nationwide network of field office cyber task forces to focus on cybersecurity threats and promote effective collaboration and deconfliction of efforts at both the local and national level. Participation in the task force provides FCC OIG access to law enforcement resources and technology and, most importantly, improved coordination with Federal, State, and Local law enforcement partners. FCC OIG participation also strengthens cyber security at the FCC by providing a point of contact through which cyber threat information can be shared and tracked and allows for FCC OIG to support FBI cyber cases.

Office of Inspector General Hotline

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

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

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

Consumers who have general questions, consumer complaints, or issues not related to fraud, waste and abuse, should contact the FCC's Consumer & Governmental Affairs Bureau (CGB) at www.fcc.gov/cgb, or contact the FCC's Consumer Center by calling 1-888-CALL-FCC (1-888-225-5322) voice or 1-888-TELL-FCC (1-888-835-5322). CGB develops and implements the Commission's consumer policies, including disability access. The FCC Consumer Center processes public inquiries, informal complaints, and questions regarding cable, radio, satellite, telephone, television and wireless services. The goal of this process is to foster a mutually satisfactory resolution of the complaint between the service provider and its customer.

During the current reporting period, OIG received:

1. 7346 Hotline contacts. Of these, three were referred to OIG for possible case openings.
2. 192 were referred to FCC Consumer Center or other FCC Bureaus.
3. 771 were referred to other agencies.

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, and the Universal Service Fund Division. Highlights of the work conducted by OA during the current semiannual reporting period are provided below.

Operations, Financial, and Information Technology Division

The 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 three mandatory projects during the reporting period. Four projects are in process and will be summarized in a future reporting period.

Completed OFID Audits and Other Projects

Fiscal Year 2018 Consolidated Financial Statement Audit (Report No. 18-AUD-07-05)

Federal law requires the FCC to prepare annual consolidated financial statements and OIG to audit the statements. Under the oversight of OFID Kearney & Company (Kearney) performed

an audit of the FCC's FY 2018 consolidated financial statements. Kearney's audit resulted in the issuance of three reports dated November 15, 2018. In the Independent Auditor's Report, Kearney expressed an unmodified opinion. In the report on Compliance and Other Matters, Kearney did not report any instances of non-compliance. In the report on Internal Controls, Kearney reported two repeat findings, one as a material weakness² and one as a significant deficiency³.

The first repeat finding, a material weakness that was reported as a significant deficiency in the prior year, was related to Universal Services Fund Budgetary Accounting. In FY 2016, USAC implemented the E-Rate Productivity Center (EPC), an account and application management system for the Schools and Libraries E-rate Program. During the FY 2018 audit, Kearney found significant errors in USF obligated balances that were caused by deficiencies in the EPC system work flow. Kearney found that USAC understated its FY 2017 Obligations by \$51.1 million. Further, the auditors found that USAC had overstated the FY 2018 Upward Adjustments of Prior-Year Unpaid Undelivered Orders - Obligations by \$9.9 million, and Downward Adjustments of Prior-Year Unpaid Undelivered Orders - Obligations, Recoveries by \$9.4 million. Kearney estimated that both of these accounts were overstated by an additional \$12.3 million as a result of transactions that were not processed through the EPC system timely. Kearney offered six recommendations to strengthen FCC financial reporting. Management concurred with each of the reported findings and recommendations.

The second repeat finding, reported as a significant deficiency in the Report on Internal Controls, related to Information Technology (IT) controls. Kearney found that the FCC and USAC lack sufficient, reliable controls for FCC's IT general control environment, financial management system, and third-party operating systems. Details on the IT findings and recommendations are reported in the FY 2018 FISMA evaluation report.

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

The FISMA legislation requires federal agencies to develop, document, and implement an agency-wide program to provide information security for the information and information

² A material weakness is a 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.

³ A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

systems supporting the operations and assets of the agency. FISMA requires agencies to protect information and information systems from unauthorized access, use, disclosure, disruption, modification, or destruction in order to provide integrity, confidentiality and availability. Under the oversight of OFID, Kearney performed the FY 2018 FISMA evaluation. Based on Kearney's evaluation results, the OIG submitted the completed *FY 2018 DHS IG FISMA Metrics* questionnaire to DHS on October 31, 2018. DHS uses the submission for government-wide reporting to Congress. The FY 2018 FISMA Evaluation Report was issued on December 21, 2018.

Kearney concluded that the FCC's information security program was not in compliance with FISMA legislation, OMB guidance, or applicable NIST Special Publications. Kearney identified nine findings in six of the eight FISMA metric domains: Risk Management, Configuration Management, Identity and Access Management, Information Security Continuous Monitoring, Incident Response, and Contingency Planning. Kearney noted that the FCC has made progress, but should prioritize its corrective actions to address Risk Management, Identity and Access Management, and Information Security Continuous Monitoring due to the risk within these domains. Two of the eight metric domains, Data Privacy and Protection, and Security Training were in compliance with FISMA. Kearney offered nineteen recommendations to strengthen the FCC's information security program. Management generally concurred with the report findings and recommendations.

Inspection of FCC Government Charge Card Program (Report No. 18-INSP-04-01)

The Office of Management and Budget Memorandum M-13-21, *Implementation of the Government Charge Card Abuse Prevention Act of 2012* (Charge Card Act), requires Inspectors General (IGs) to conduct periodic risk assessments of agency purchase cards, combined integrated card programs, and travel card programs to analyze the risks of illegal, improper, or erroneous purchases. The Charge Card Act also requires IGs to report to the Director of OMB within 120 days after the end of each fiscal year (on or before January 31), on agency progress in implementing audit recommendations.

OFID conducted an Inspection of the FCC's Charge Card Program and found that FCC policies and procedures met the requirements of the Charge Card Act. We did not identify any transactions that we considered to be potentially illegal, or improperly accounted for. However, we did identify instances where FCC purchase cardholders did not follow FCC policy, which is more stringent than the federal government policy. Specifically, we tested 84 purchase card

transactions and found 35 transactions in which FCC purchase cardholders did not follow FCC policies and procedures for paying for recurring charges and obtaining pre-authorization for purchases.

In our final inspection report, issued on January 30, 2019, we reported two findings and five recommendations for improvements. Management agreed with the findings and stated that actions are being taken to address each of the five recommendations. In addition, we reported the results of our efforts to the Director of OMB prior to the January 31, 2019 deadline.

OFID In-Process Audits and Other Projects

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

FY 2018 Improper Payments Elimination and Recovery Improvement Act Compliance Audit (Project No. 19-AUD-01-02)

Audit of Universal Service Administrative Company Information Technology Software Asset Management (Project No. 18-AUD-07-04)

Follow-up review of the Fiscal Year 2017 Digital Accountability and Transparency Act Audit (Project no. 19-OASP-02-01)

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 are designed to detect and prevent fraud, waste, and abuse, and promote economy, effectiveness and efficiency of USF programs. 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. We share information such as USF program risks, prior audit results, testing tools, and USF program initiatives.

USFD issued two audit reports and one memorandum to FCC management during the reporting period. Five projects were in-process at the end of the reporting period and will be summarized in a future reporting period.

Completed USFD Audits and Other Projects

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

OA conducted a performance audit of East Central Independent School District (the District). The objective was to determine whether the District complied with the FCC rules and orders for the E-rate program, as stated in Title 47 of the Code of Federal Regulations, for the period July 1, 2015 through June 30, 2016. The final report was issued March 19, 2019.

The audit did not identify any significant internal control weaknesses or material noncompliance with the applicable E-rate program laws, rules and regulations. Therefore, we did not report any findings or recommendations for corrective action. The District could not locate one item of telecommunications equipment (an access point) that was purchased with E-rate funds. The cost of the lost equipment was less than one percent of the total E-rate funds received by the District for funding year 2015, and was, thus, considered immaterial. Additionally, the District provided evidence that the equipment would be replaced by the contractor responsible for the loss.

Contributor Rules Audit of Northeast Colorado Cellular, Inc. (16-AUD-05-03)

OA contracted with an IPA firm to conduct the audit of Northeast Colorado Cellular, Inc.'s compliance with federal Universal Service Fund Contributor Rules. The purpose of this performance audit was to determine if Northeast Colorado Cellular, Inc. d/b/a Viaero Wireless (Filer) complied with FCC rules and orders set forth in 47 C.F.R. Part 54, as well as other FCC rules, FCC orders, and the 2014 Instructions to the Telecommunications Reporting Worksheet, FCC Form 499-A.

The audit report, issued November 1, 2018, identified 11 findings and made 22 recommendations to the Filer's management officials. The Filer generally agreed with the findings and recommendations. The findings resulted in adjustments that increased the Filer's 2014 contribution base. The increase in the contribution base is pending USAC review and may require the Filer to pay additional USF contributions for 2014. The final audit report contains

non-public information and, thus was not released to the public. To the extent possible, the audit report will be redacted and posted on the OIG's web page.

Memorandum: Unallowable Reimbursement/AT&T Online System Billing Error (18-MEMO-10-01)

During our audit of West Baton Rouge Parish Central Office (Central Office) (Report no. 17-AUD-05-02) we found that the Central Office received \$46,871 of unallowable USF reimbursements for services provided by AT&T for funding year 2015. The audit found that the service provider, AT&T (SPIN No. 143001192), delivered services to, but did not bill the Central Office for E-rate program eligible router services in funding year 2015. The audit confirmed that the Central Office received USF reimbursements for those router services, even though it did not pay AT&T and did not incur the costs.

Consequently, on February 1, 2019, the OIG issued a memorandum to the FCC's Office of the Managing Director requesting review of USF payments to E-Rate beneficiaries for services provided by AT&T. The purpose of the review is to determine if other beneficiaries improperly received reimbursements from the USF for services for which AT&T did not bill, and thus for which the beneficiaries did not pay.

USFD In-Process Audits and Other Projects

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

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

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

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

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

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 *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 programs and operations of such establishment disclosed by such activities during the reporting period.

Please 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 19 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 program. One specific recommendation calling for the creation of an online competitive bid repository within EPC, discussed in the section of this report titled "Office of Investigation," has

not yet been implemented. Additionally, as noted in several previous SARs and as discussed in the section of this report titled “Office of Investigation,” OI has repeatedly recommended that the Commission improve and expand its suspension and debarment program.

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

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

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

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

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

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

7. A summary of each particularly significant report.

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

8. Statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs), for reports— (A) for which no management decision had been made by the commencement of the reporting period; (B) which were issued during the reporting period; (C) for which a management decision was made during the reporting period, including-

(i) the dollar value of disallowed costs; and (ii) the dollar value of costs not disallowed; and (D) for which no management decision has been made by the end of the reporting period.

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

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

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

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

No management decisions fall within this category.

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

No management decisions fall within this category.

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

No management decisions fall within this category.

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

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

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

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.

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 investigation reports during the reporting period is set out in the Office of Investigation Section. In this reporting period, we referred no cases to the Department of Justice for criminal prosecution. No person was referred to State or local prosecuting authorities for criminal prosecution, and one four-count indictment against two individuals was 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.

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

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

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

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

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

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

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.

TABLE 1

Questioned and Unsupported Costs		
OIG Audit, Inspection and Evaluation Reports		
Status of OIG Reports with Questioned Costs	Number of Reports	Questioned/ Unsupported Costs
A. No management decision has been made by the commencement of the reporting period.		
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

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.

**Office of Inspector General
Federal Communications Commission
445 12th Street S.W.
Washington, D.C. 20554**



Report fraud, waste, and abuse to:

Email: Hotline@FCC.gov

Call Hotline: 202-418-0473