
**Federal Communications Commission
Office of Inspector General**



Semiannual Report to Congress

October 1, 2019—March 31, 2020

THE FEDERAL COMMUNICATIONS COMMISSION



Left to Right:

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

COVER MEMORANDUM

DATE: May 06, 2020

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

FROM Inspector General

SUBJECT Semiannual Report to Congress

In accordance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. 3 § 5, I have attached my report summarizing the activities and accomplishments of the Office of the Inspector General (OIG) during the six-month period ending 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

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INTRODUCTION

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

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

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

Johnny Drake, AIG for Management

Sharon Diskin, AIG for Investigations and Counsel to the IG

Robert McGriff, AIG for Audit

In this semiannual report, we discuss both the major accomplishments and activities of the OIG from October 1, 2019 through March 31, 2020, 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, investigative attorneys, paralegals, an IT specialist, a contract specialist, a computer forensic investigator, a budget officer and two data analysts. Due to retirements and routine staff turnover, we have initiated a recruiting process, with an emphasis on more junior positions. This will help the office budgetarily, allow us to grow from within, and provide newer hires the benefit of the depth of our staff's knowledge and experience. Further, this course will help to ensure our staff has a career path to follow.

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

Process Improvement

Since OIG began migration to AWS Cloud in mid-2017, our data footprint has grown approximately 24 times: from under one Terabyte to approximately 24 Terabytes. The processing power available in AWS via Redshift and Postgres database systems increases our processing speed 26 and 30 times, respectively. This exponential increase in both data storage and processing capability enables OIG to perform complex analysis on very large datasets. For example, with our current footprint, one data analyst can run a clustering algorithm on a large dataset in several weeks that would have previously taken several years of processing time.

Legislative and Policy Matters

Pursuant to section 4(a)(2) of the IG Act, OIG monitors and reviews existing and proposed legislation and regulatory proposals for their potential impact on OIG and the FCC's programs

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

Further, during the reporting period, we continued to share updated recommendations to prevent and detect fraud in Universal Service programs with Commission and Universal Service Administrative Company (USAC) staff. *See infra* pp. 11-17.

OFFICE OF INVESTIGATION

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

OI receives and investigates complaints regarding the manner in which the FCC executes its programs, how it handles its operations administratively, and how the FCC conducts its oversight responsibilities. Allegations come from a variety of sources including FCC managers and employees, contractors, program stakeholders, Congress and the public at large. Whistleblower requests for anonymity are honored, except when identification is needed for law enforcement purposes. Allegations may also be referred by OIG auditors.

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

Statutory Law Enforcement Authority

The Inspector General Act of 1978, 5 U.S.C. app. 3, established criminal investigative jurisdiction for the offices of presidentially appointed Inspectors General. The enforcement powers and responsibilities of presidentially appointed Inspectors General were enhanced to provide firearms, arrest, and search warrant authorities to investigators with the enactment of section 812 of the Homeland Security Act of 2002. As noted in FCC OIG's November 1, 2017 – March 31, 2018 Semi-Annual Report, Section 501(a) of the Ray Baum's Act of 2018 amended

Sec. 8(G)(a)(2) of the Inspector General Act to provide that the FCC inspector general is to become a presidentially appointed position.

While awaiting the confirmation of a new IG, OI is undertaking efforts so that we can expeditiously utilize the statutory law enforcement authority available to presidentially appointed Inspectors General.

In order to obtain statutory law enforcement authority, OI must comply with section 6(f) of the IG Act which requires OI to follow certain guidelines established by the Attorney General. Of primary importance in the Attorney General’s guidelines is the requirement that each investigator exercising statutory law enforcement authority complete the Federal Law Enforcement’s Basic Criminal Investigator Training Program (or a course deemed equivalent). The Basic Criminal Investigator Training Program includes “lecture, laboratories, practical exercises and written exams ... to ensure that each trainee acquires the critical knowledge, skills and abilities required of new criminal investigators.”

Pursuant to the guidelines, OI has arranged to send two investigative attorneys to the Basic Criminal Investigator Training Program. Upon completion of the training program and after ensuring compliance with the IG Act and the Attorney General’s guidelines, OI plans to utilize its statutory law enforcement authority to further its already robust work in the prevention and deterrence of fraud, waste, and abuse of FCC programs.

Staffing

This period, after an extensive search, we hired two additional investigative attorneys. Both individuals will bring with them significant law enforcement experience; one spent years working as a state prosecutor, the other as a JAG officer. We expect to utilize their talents and expertise to not only address our current case load, but also to work on new investigations resulting from the proactive work performed by our data analytics team.

Activity During This Period

Cases pending as of October 1, 2019.....	55
New Cases.....	5
Cases Closed.....	13
Cases pending as of March 31, 2020.....	47

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

Significant Activities

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

Investigations into Fraud in the Federal Universal Service Program

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

The *High Cost Program*, which is being reformed and transitioning to the Connect America Fund (CAF), provides support to certain qualifying telecommunications carriers serving high-cost (primarily rural) areas. Telecommunications carriers receiving High Cost support must offer services to rural area consumers at rates reasonably comparable to the rates for services offered in urban areas. The CAF is designed to transition the program away from providing voice-only telephone service to providing multi-purpose networks capable of offering broadband Internet access. Funding for CAF, including legacy High Cost Program support was \$5 billion in calendar year 2019.

The *Schools and Libraries Program*, also known as “E-rate,” provides support to eligible schools and libraries in every U.S. state and territory to help fund telecommunication services, Internet access, and internal connections. In E-rate funding year 2019, USAC received over 36,400 applications from schools and libraries, seeking over \$2.89 billion in support. In calendar year 2019, USAC disbursed over \$1.9 billion in E-rate support.¹

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.

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

The *Lifeline Program* provides support to eligible telecommunications carriers that, in turn, offer discounts on telecommunications services to eligible consumers. In 2019, USF disbursement authorized support totaled more than \$980 million.

OIG is also responsible for providing oversight of USF receipts collected from telecommunications providers offering international and interstate telecommunications services. Those telecommunications providers are collectively referred to as *contributors*. Over 3,400 contributors submitted total contributions of approximately \$8.43 billion in 2019.

The bulk of OI's work involves investigating and supporting civil and criminal investigations and prosecutions of fraud in the FCC's federal universal service programs. The Assistant Inspector General for Investigation (AIGI) and investigations staff 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 ongoing universal service investigations are not known to the public and even some closed investigations cannot be disclosed because of sensitivities that could impact related ongoing matters. Specifically, the OI is engaged in multiple, ongoing, large-scale investigations involving the High Cost, E-rate and Lifeline Programs, as well as Qui Tams under seal, seeking damages pursuant to the Federal False Claims Act (FCA). We hope to share details about these matters in the near future. We have, however, begun to disseminate information that can be made publicly available more widely, with the expectation that details of our work will serve as a deterrence against future fraud. In addition to posting news releases on the FCC OIG's webpage, response to OI's request, USAC has also been posting OI headlines, such as press releases and other significant items, to USAC's website.

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

Lifeline Program

Ongoing Lifeline Investigations

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

Agency Messaging Regarding the National Verifier

As reported in our last semi-annual report, OI previously advised the Commission that its vague and confusing messaging regarding ETC enrollment obligations and the "responsibility-shifting" role of the National Verifier could lead to significant, unanticipated negative impacts on efforts to combat waste, fraud and abuse in the Lifeline program. Moreover, the Commission's and USAC's "responsibility-shifting" messaging conflicted with previous Commission statements, particularly ETC enrollment obligations under 47 CFR § 54.410 (a) and the Commission's June 2017 Public Notice. OI advised the Commission to issue clarifying guidance to advise stakeholders that the National Verifier does not relieve ETCs of their fundamental obligation to ensure subscriber eligibility.

In response, on December 9, 2019, the Commission issued an Enforcement Advisory warning ETCs they remain responsible for seeking subsidies only for eligible low-income consumers. The Advisory was clear the National Verifier does not provide a safe harbor. The Advisory also reminded ETCs of other program requirements including eligibility verification, enrollment and reimbursement, document retention, and de-enrollment obligations.

Deceased Subscriber Recoveries

OI previously reported the discovery that ETCs had enrolled tens of thousands of deceased individuals into the Lifeline program. We also reported that the Commission and USAC adopted OI's recommendation to model a recovery process for the disbursements made on behalf of

deceased individuals on the COMAD process for funds wrongly disbursed in the E-rate program. To date, USAC has recovered funds from several of the top ETC offenders and recovery from the remaining ETCs is in process. OI also continues to work with DOJ to investigate the conduct of other top offenders. Through these combined efforts of recovery, investigation, and USAC's adoption of a "death check" at the time of enrollment, OI seeks to eliminate this risk from the program.

Recommendations to Mitigate Program Fraud

Over the last several years, OI has made numerous recommendations to the Commission and USAC on ways to reduce and mitigate fraud in the Lifeline program. OI staff have presented 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. OI is pleased to report the Commission and USAC have adopted many of OI's fraud mitigation recommendations, including the following examples:

- **Agent Registration Database:** USAC is in the final stages of implementing a registration database to collect information from sales agents who enroll low income customers on behalf of ETCs. Based on our findings that ETC sales agents are among the most frequent entry point of fraud in the Lifeline program, OI first recommended in 2016 that the Commission and USAC register sales agents and other ETC employees who use NLAD to enroll program participants. As previously reported, we have shared findings from investigations and other feedback with USAC to ensure the new database is more effective at tracking and disincentivizing agent fraud.
- **ETC Reimbursement Based on NLAD:** In 2016, OIG also recommended that USAC stop paying ETC reimbursement claims based solely on the unsubstantiated numbers ETCs claim on their FCC Form 497 filings. In 2018, USAC began basing ETC reimbursement for offering Lifeline-supported services on its Lifeline Claims System (LCS), data which is then reviewed and certified by ETCs.
- **Cap Use of Subscriber Addresses:** In 2017, OI recommended the Agency and USAC cap the number of times a subscriber address could be used to support an enrollment after discovering single-family homes and even vacant lots were used as "subscriber addresses" hundreds of times to support many suspect enrollments. Since making our recommendation, USAC has adopted measures to evaluate oversubscribed addresses, including routine audits and other processes.

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- Implementation of a universal de-enrollment mechanism: The National Verifier permits subscribers to enroll, de-enroll, and transfer their benefit directly.

These examples are illustrative of many OI recommendations the Commission has adopted to reduce fraud, waste and abuse in the Lifeline program. We will continue to urge the Commission to address other outstanding OI recommendations, including its recommendation that Lifeline ETCs should be required to demonstrate robust training and compliance programs. Advisory Letter Regarding Usage Rule Compliance

On January 28, 2020, OI issued an advisory letter to alert ETCs, consumers, and the public to Lifeline carrier failures to comply with the program’s usage rule. The usage rule is designed to prevent fraud, waste, and abuse in the program. Based on the Commission’s public statement regarding recent disclosures made by Sprint, and OI’s ongoing investigations, OI suspects and is concerned non-compliance with the usage rule by both large and small carriers may be more widespread.

In the letter, we provided examples of troubling discoveries we have made during ongoing investigations, including evidence ETCs have sought reimbursement for providing service to accounts that never had any qualifying usage. Moreover, OI encouraged Lifeline ETCs to examine their usage monitoring and de-enrollment practices to ensure compliance with program rules and reminded carriers of their obligation to take appropriate remedial measures, including amending past 497 filings and de-enrolling affected subscribers if problems are discovered. OI will continue to issue advisories to alert and educate Lifeline stakeholders and the public about some of the root causes of fraud, waste, and abuse we learn about during our investigations.

E-Rate Program

Ongoing E-rate Investigations

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

New York Based Service Providers, Consultants and School Officials

On February 12, 2020, the United States Attorney’s Office for the Southern District of New York announced guilty pleas by seven defendants to defrauding the E-rate program. The schools at issue in this matter, Rockland County-based religious schools, never received millions of dollars of technology items and services for which the defendants billed the E-rate program or received hundreds of thousands of dollars of sophisticated technology that served no real purposes for the student population. For example, from 2009 through 2015, one day care center that served toddlers from the ages of 2 through 4 requested over \$700,000 – nearly \$500,000 of which was ultimately funded – for equipment and services – including video conferencing and distance learning, a “media master system,” sophisticated telecommunications systems supporting at least 23 lines, and high-speed internet – from companies controlled by certain defendants. In still other instances, the schools received equipment and services that fulfilled the functions for which the schools had requested E-rate funds (such as providing the school with internet access), but the schools and the defendants materially overbilled the E-rate program for the items provided, in order to enrich themselves at the expense of the underprivileged children the program was designed to serve. Additionally, the defendants perverted the fair and open competitive bidding process required by the E-rate program. Defendants purported to be independent consultants working for schools but were in truth working for and paid by other defendants who controlled vendor companies. The defendants made false and misleading filings which resulted in millions of dollars in E-rate funds being improperly disbursed. In exchange, certain schools and school officials received a variety of improper benefits from certain defendants including a percentage of the funds fraudulently obtained from the E-rate program, free items paid for with E-rate funds but not authorized by the program.

Peretz Klein, Susan Klein, Ben Klein and Sholem Steinberg held themselves out as vendors to schools participating in the E-rate program. Corporations controlled by these defendants requested over \$35 million in E-rate funds, and received over \$14 million in E-rate funds, from in or about 2010 to in or about 2016. Each of these defendants has admitted that the companies they controlled did not in fact provide much of the equipment for which they billed the federal government.

Simon Goldbrener and Moshe Schwartz held themselves out as consultants who worked for educational institutions, supposedly helping schools to participate in the E-rate program by, among other things, holding a fair and open bidding process to select cost-effective vendors. Goldbrener and Schwartz have admitted that they were in fact paid hundreds of thousands of dollars by the vendors to complete and file false E-rate documents that circumvented the bidding process and resulted in the payment of millions of dollars to the vendors.

Aron Melber was an official at a private religious school in Rockland County, New York, that participated in the E-rate program with some of the defendants. Melber has now admitted that he filed false certifications with the E-rate program, falsely claiming to have obtained authorized E-rate funded equipment and services from vendors selected through a fair and open bidding process. Each defendant pled guilty to one count of conspiracy to commit wire fraud (18 U.S.C. § 371), which carries a maximum sentence of five years imprisonment and a \$250,000 fine. Sentencing for the defendants, who have each additionally agreed to forfeit certain sums and pay restitution, is scheduled for May and June 2020.

Former Kentucky Based Vendors

In February 2020, Mark J. Whitaker of Murray, Kentucky pled guilty in federal court in Memphis, TN to concealing a decade-long E-rate program wire fraud scheme (18 U.S.C. § 4). Whitaker admitted to actively concealing a scheme by his co-defendant, Charles A. “Chuck” Jones, to defraud the E-rate program.

Whitaker helped manage two of Jones’s companies, both of which participated as E-rate vendors in several public school districts in Tennessee and Missouri. Whitaker admitted his job was to submit false certifications to the E-rate program at Jones’s direction. These certifications stated the schools had been invoiced for their required E-rate co-pay and that Jones’s companies had not paid any kickbacks to the schools or their agents. Whitaker submitted these certifications despite knowing Jones paid the schools’ consultant, “A.J.,” bribes and gave A.J. valuable gifts while A.J. worked with the schools where Jones’s companies conducted E-rate business and that Jones’s companies did not bill the Missouri schools their full required co-pays. If the E-rate program administrator had known of these false certifications, the administrator would not have paid Jones’s companies. Wire fraud and conspiracy charges against Jones are still pending and are scheduled to be tried before a jury in Memphis, TN in April 2020.

Sentencing for Whitaker is scheduled for July 23, 2020 and he faces a maximum of 3 years imprisonment and a \$250,000 fine.

Nova Charter School and ADI Engineering

Following a three-day jury trial in Dallas, Texas, Donna Woods was found guilty on four of four charges. Woods was sentenced by the federal court on January 30, 2020 to 87 months

imprisonment, two years supervised release, and to pay \$363,351.06 in restitution and fines. As noted in a prior Semi-Annual Report, Woods's former co-defendant, Donatus Anyanwu, pleaded guilty to one count of conspiracy to commit mail and wire fraud in July 2019. Anyanwu was sentenced on January 30, 2020 to 30 months imprisonment, two years supervised release, and to pay \$338,051.06² in restitution and fines.

AutoExec Computer Systems, Inc.

In December 2019, John Comito, the CEO of Staten Island, New York-based AutoExec Computer Systems, Inc., was arrested after being charged with mail and wire fraud. As set forth in the indictment and other court documents, from 2013 to 2017, twenty-six elementary, middle and high schools located in the Diocese of Brooklyn contracted with AutoExec to provide telecommunications equipment and services. At least eight schools received no equipment or services, and the remaining schools received partial, substandard or non-approved equipment and services. In total, Comito overbilled the E-rate program, and defrauded the program and schools, in the amount of approximately \$426,000. The case against Comito is set for trial in the Federal District Court, Eastern District of New York.

Proactive Identification of Potentially Fraudulent Activity

OI has continued its investigation into individual schools where potential fraudulent reporting of National School Lunch Program numbers by applicants to USAC was identified. The limited results to date have supported OI's previous suspicions and revealed additional instances of fraudulent activity. OI continues to review data to identify additional instances where fraudulent activity has occurred and has expanded the scope of its review of E-rate program data to include searching for other indicia of potential fraud. This analysis has already been fruitful and has resulted in new cases opened in this reporting period.

Creation of an Online Competitive Bid Repository within EPC

Since January 2017, OI has recommended USAC create an online competitive bid repository within 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 believes limited, to no progress has been made on this recommendation and OI does not currently know if USAC will create this repository.

² Woods and Anyanwu are jointly and severally liable for the restitution which totaled \$337,951.06.

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.

The Commission issued a "Modernizing Suspension and Debarment Rules" Notice of Proposed Rulemaking in November 2019 and the Notice was published in the Federal Register on January 14, 2020. The Commission is collecting comments and reply comments on its proposed Suspension and Debarment rules through March 16, 2020. We look forward to the implementation of a robust suspension and debarment program at the FCC.

Notification Process for Cancelled FCC Forms 470

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

Rural Health Care Program

OI has seen an increase of referrals of potential RHC fraud from the RHC program administrator. This has required reassignment of new RHC cases to more experienced investigators who are also working on E-rate program fraud matters. OI plans to assign its newly hired investigative attorneys to assist with the increased case load.

OI Data Assets and Capabilities Expand

OI's data team continues to expand the breadth of the program data it reviews and the capacity to conduct those reviews. Since mid-2019, OI has developed new data assets and capabilities to identify and extract relevant information from datasets related to the E-Rate, Rural Health Care,

and TRS programs. During the current reporting period, OI has built code to automate many of the processes involved in ingesting routine refreshes of USAC’s datasets related to the Lifeline, E-rate, and Rural Health Care programs.

Notably, OI has substantially expanded its efforts in utilizing E-rate datasets to proactively identify fraudulent and abusive conduct among service providers, program beneficiaries, and consultants. Over the past six months, OI has developed data reports highlighting service providers, beneficiaries, and consultants whose use of the EPC system matches known patterns of fraudulent conduct. Other new reports flag anomalous program trends, such as dramatic increases in the number of program participants in certain beneficiary categories by geographic area (e.g., disproportionate numbers of libraries per zip code). OI has also continued its investigation into individual schools where potential fraudulent reporting of National School Lunch Program numbers by applicants to USAC was identified. The results of our data analysts’ work in these areas have led to the opening of new cases in this reporting period and are helping to shape OI’s investigative strategies.

Internal Affairs

The IG is authorized by the IG Act, as amended, to investigate allegations of fraud, waste and abuse occurring in FCC operations. Matters of possible wrongdoing are referred to OIG in the form of allegations or complaints from a variety of sources, including FCC employees, contractors, other government agencies and the general public. OI investigators are currently engaged in an investigative referral from the Council of the Inspectors General on Integrity and Efficiency alleging IG misconduct

Office of Inspector General Hotline

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

Many of the allegations received by the Hotline raise issues that do not fall within the jurisdiction of the FCC or the OIG, and many do not rise to the level of devoting investigative

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. 8548 Hotline contacts. Of these, none were referred to OIG for possible case opening.
2. 89 were referred to FCC Consumer Center or other FCC Bureaus.
3. 585 were referred to other agencies.

OFFICE OF AUDIT

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

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

Operations, Financial, and Information Technology Division

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

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

Completed OFID Audits and Other Projects

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

Federal law requires the FCC to prepare annual consolidated financial statements and OIG to audit those statements. Under OA's oversight, Kearney & Company (Kearney) performed an

audit of the FCC’s Fiscal Year (FY) 2019 consolidated financial statements. Kearney’s audit resulted in the issuance of three reports dated November 19, 2019. In the Independent Auditor’s Report on the Financial Statements, 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 over financial reporting, Kearney reported two repeat audit findings, both of which were considered significant deficiencies in internal controls.

The first repeat finding, reported a significant deficiency, was downgraded from a material weakness in the prior year and relates to USAC’s budgetary accounting for the Universal Services Fund (USF). During the FY 2019 audit, Kearney found deficiencies in internal controls supporting obligations or adjustments to obligations recorded in the prior year. Kearney found that the control deficiencies caused multiple errors that resulted in overstated and understated USF budgetary accounts. Kearney reported that without improved processes and internal controls, additional errors in USAC’s budgetary accounts are likely to occur. Kearney offered three recommendations to strengthen FCC and USAC’s processes and internal controls related to budgetary accounting. Management concurred with the audit report finding and recommendations.

The second repeat finding, reported as a significant deficiency in the Report on Internal Controls relates to Information Technology (IT) controls. Kearney found that the FCC and USAC lack sufficient reliable controls for the FCC’s IT general control environment, financial management system, and third-party operating systems. Details of all IT findings and recommendations are reported separately in the FY 2019 FISMA Evaluation report (Report No. 19-EVAL-07-01).

Fiscal Year 2019 Federal Information Security Modernization Act Evaluation (Report No. 19-EVAL-07-01)

The 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. FISMA requires agency IGs to conduct or contract for an independent evaluation of the agency’s information security program, annually. Under the oversight of OFID, Kearney performed the FY 2019 FISMA evaluation. Based on evaluation results, the OIG submitted the completed *FY 2019 DHS IG FISMA Metrics* questionnaire, as required for government-wide reporting to Congress, on October 30, 2019. Subsequently, the OIG issued the FY 2019 FISMA Evaluation Report on January 8, 2020.

Kearney concluded that the FCC’s information security program was not in compliance with FISMA requirements, Office of Management and Budget (OMB) guidance, or applicable National Institute of Standards and Technology Special Publications. Kearney’s report identified nine findings in six of the eight FISMA metric domains: Risk Management, Configuration Management, Identity and Access Management, Data Protection and Privacy, Information Security Continuous Monitoring, and Incident Response. Kearney reported a significant deficiency for two of the domains - Identity and Access Management and Information Security Continuous Monitoring. These two domains require greater agency focus to strengthen the agency’s information security controls and to implement fully and maintain the agency’s information security posture. Kearney offered 24 recommendations, of which 15 are repeat or reissued recommendations. Management must commit to resolving the longstanding weaknesses to improve the effectiveness of the FCC’s information security program. Management generally concurred with the report findings and recommendations.

Audit of the FCC Fiscal Year 2017 Digital Accountability and Transparency Act of 2014
(Report No. 19-AUD-08-05)

In accordance with OMB Bulletin 15-12, *Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable*, dated May 8, 2014, and the Digital Accountability and Transparency Act (DATA Act) of 2014, Federal agencies are required to report financial and spending information to the public through USAspending.gov. OA contracted with Kearney to audit the FCC’s FY 2019 first quarter financial and award data submitted to the Department of Treasury for publication on USAspending.gov.

The auditors assessed 100 percent of the award transactions the FCC reported in its first quarter 2019 DATA Act submission and found that the FCC had implemented the Government-wide data standards and submitted financial and award data to the Department of Treasury timely. However, the FCC’s submission was incomplete. Specifically, the FCC did not submit component spending data for the Universal Service Fund or the Telecommunications Relay Service Fund. The auditors also found that the financial and spending data submitted contained accuracy and timeliness errors which, in most instances, resulted from weaknesses in FCC’s quality control procedures. Kearney reported three findings and made five recommendations, to which FCC management concurred. The DATA Act audit report was issued on November 8, 2019.

OFID In-Process Audits and Other Projects

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

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

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

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

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

Universal Service Fund Division

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

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

USFD In-Process Audits and Other Projects

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

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

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

Audit of Centralia City School District 135 (E-Rate) (Project No. 19-AUD-02-02)

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

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

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

REPORTING REQUIREMENTS

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

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

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

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

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

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

Information technology security (IT) recommendations represent the most significant recommendations from previous semiannual reports for which corrective actions have not yet been completed. Currently there are 20 open IT security recommendations that were identified in prior FISMA and other IT audits and evaluations. The recommendations identified in prior FISMA evaluations address identity and access management, information security continuous monitoring, risk management, configuration management, data protection and privacy, and incident response. The annual FISMA evaluation testing has shown that the Commission has continued to improve processes within its overall information security program. Recent testing shows improvement in areas of risk management, identity and access management and contingency planning. We consider the FISMA recommendations for improving the FCC's information security continuous monitoring, and identity and access management to be the most significant recommendations. Therefore, significant work is needed to resolve open IT security recommendations. Except for the public version of the FISMA report, all IT security reports contain sensitive, non-public information regarding the FCC's information security program and infrastructure. Accordingly, the reports are not released to the public.

*Also, please refer to discussion of “Creation of an Online Competitive Bid Repository within EPC” page 16, *supra*.*

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

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

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

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

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

No audit reports issued during the reporting period made recommendations that identified questioned costs, including unsupported costs or funds put to better use.

7. A summary of each particularly significant report.

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

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

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

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

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

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

No audit report, inspection report, or evaluation report falls within this category.

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

No management decision falls within this category.

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

No management decision falls within this category.

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

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

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

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

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

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

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

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

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

The total number of investigation reports during the reporting period is set out in the Office of Investigation Section. In this reporting period, we referred four individuals to the Department of Justice for criminal prosecution. No person was referred to State or local prosecuting authorities for criminal prosecution, and nine indictments or informations were filed during the reporting period.

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

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

19. A report on each investigation conducted by the Office involving a senior Government employee where allegations of misconduct were substantiated, including a detailed description of - (A) the facts and circumstances of the investigation; and (B) the status and disposition of the

matter, including - (i) if the matter was referred to the Department of Justice, the date of the referral; and (ii) if the Department of Justice declined the referral, the date of the declination.

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

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

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

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

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

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

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

APPENDIX A

Peer Review Results

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

Office of Audit peer review results

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

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

Office of Audit Peer Reviews of Other OIGs

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

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