

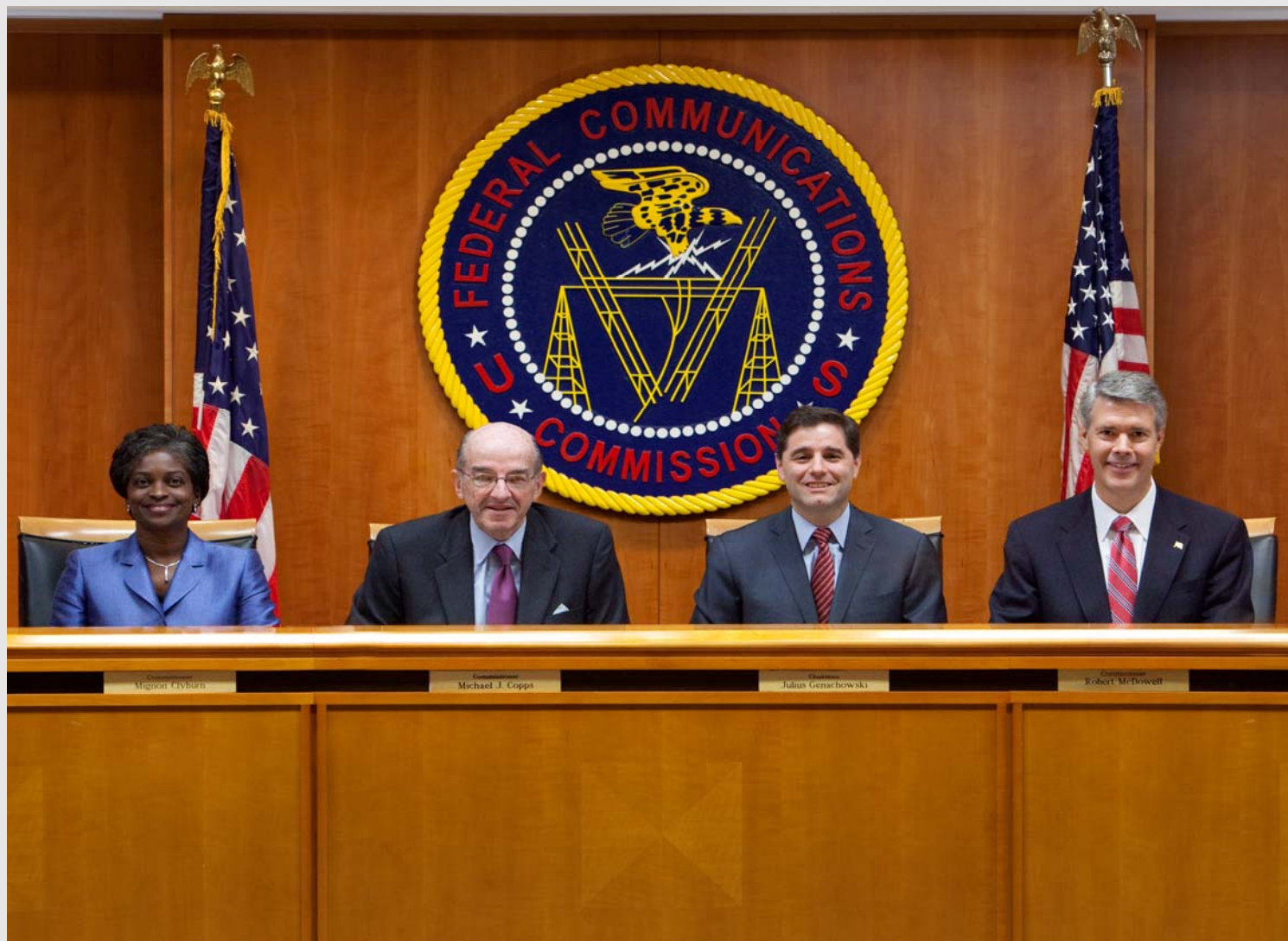


Office of Inspector General Federal Communications Commission

Semiannual Report to Congress

April 1, 2011 through September 30, 2011

The Federal Communications Commission



(left to right)

**Commissioner Clyburn, Commissioner Copps,
Chairman Genachowski, Commissioner McDowell**

Cover Letter

OFFICE OF INSPECTOR GENERAL

DATE: September 30, 2011

TO: Chairman, Federal Communications Commission

REPLY TO
ATTN OF: Inspector General

SUBJECT: Semiannual Report to Congress

In accordance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. 3 § 5, I have attached my report summarizing the activities and accomplishments of the Office of the Inspector General ("OIG") during the six-month period ending September 30, 2011. In accordance with Section 5(b) of that Act, it would be appreciated if this report, along with any associated report that you prepare as Chairman of the Federal Communications Commission ("FCC"), were forwarded to the appropriate Congressional oversight committees within 30 days of your receipt of this report.

This report describes audits that are in process, as well as those that have been completed during the preceding six months. OIG investigative personnel continued to address issues referred to, or initiated by, this office. Where appropriate, investigative and audit reports 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 and we welcome any comments or suggestions that you might have. Please let me know if you have any questions or comments.



David Hunt
Inspector General

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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.

As of the date of this report, The FCC consists of a Chairman and three Commissioners, who are appointed by the President and confirmed by the United States Senate. Julius Genachowski serves as Chairman. Michel J. Copps, Robert M. McDowell and Mignon Clyburn serve as Commissioners. Most of the FCC's employees are located in Washington, D.C. at the Portals II building, which is located at 445 12th St., S.W., Washington, D.C. Field offices and resident agents are located throughout the United States.

The Office of Inspector General ("OIG" or "Office") is dedicated to ensuring compliance with the requirements of the Inspector General Act and assisting the Chairman in his continuing efforts to improve the effectiveness and efficiency of the Federal Communications Commission. The Inspector General ("IG"), David L. Hunt reports directly to the Chairman. The IG's staff consists of attorneys, auditors, economists, investigators, management specialists and support personnel. Principal assistants to the IG are: Thomas C. Cline, Acting Deputy IG; William K. Garay, Assistant Inspector General ("AIG") for Audits; Gerald T. Grahe, AIG for Universal Service Fund Oversight; ; Harold Shrewsbury, AIG for Management, Carla Conover, AIG for Investigations and Counsel to the IG, Kathleen O'Reilly, Special Counsel on the Universal Service Fund and Jon R. Stover, Senior Legal Advisor.

This semiannual report includes the major accomplishments and activities of the OIG from April 1, 2011 through September 30, 2011, as well as information on the IG's goals and future plans.

OIG MANAGEMENT ACTIVITIES
OFFICE STAFFING
INTERNSHIP PROGRAM
LEGISLATIVE AND POLICY MATTERS

OIG MANAGEMENT ACTIVITIES

OFFICE STAFFING

OIG is comprised of 23 Full Time Equivalent (“FTE”) and 11 Not To Exceed (“NTE”) four year term appointed professionals, and three FTE, two NTE support personnel and one intern. The staffing needs of this office have been described in the last several Semiannual Reports. At one point this office had 19 NTEs. These positions are funded through monies transferred from USAC pursuant to the Consolidated Appropriations Act, 2008 (P.L. 1100-161) that specifies that that specifies that “...\$21,480,000 may be transferred from the Universal Service Fund in fiscal year 2008 to remain available until expended, to monitor the Universal Service Fund program to prevent and remedy waste, fraud and abuse, and to conduct audits and investigations by the Office of Inspector General...” These employees allow this Office to more aggressively pursue fraud and waste in the USF program. All monies transferred via the above-mentioned appropriations act not being used to pay NTE employee salaries and benefits are used to further support USF oversight.

Currently, 13 the original 19 NTE staff remains in OIG. The remainder accepted permanent positions within the FCC or elsewhere in the Federal Government. This personnel loss affects the OIG’s ability to perform audits and investigations. The OIG requested funds in the FY 2012 Budget for an additional staff of 19 FTE employees. Because the FY 2012 Budget has not been enacted the OIG included the funds for the additional 19 FTE staff in its FY 2013 budget request. Should the FY 2012 Budget be enacted including the additional funds for the 19 FTE OIG staff, the additional funds requested in the FY 2013 Budget shall be extracted.

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

OIG MANAGEMENT ACTIVITIES

Three of our staff have completed degree and certification programs which will enhance their skills. Our Acting Deputy IG Tom Cline was awarded a Master of Science degree with a concentration in public sector auditing on September 9, 2011 by Thomas Edison State College. In April 2011, AIGM Harold Shrewsberry received his certification as a Master of Project Management. And, shortly after the close of this reporting period, Senior Investigator Kim Bumstead obtained certification from the Association of Certified Fraud Examiners.

OFFICE MODERNIZATION

Over the past couple of years the OIG has invested in hardware and software products to improve OIG data management in the area of investigations and audits.

All OIG staff have been issued Blackberry wireless devices, enhancing staff's ability to communicate remotely, to fulfill emergency contact notification and for meeting continuity of operations requirements. All OIG staff have been issued laptop computers configured with a built in wireless card for accessing the FCC network through a Virtual Private Network connection. In addition, the OIG maintains global positioning devices, digital cameras, portable printers and digital voice recording devices.

We have also implemented several automated systems to expand our efficiency and capabilities:

LexisNexis – We have purchased several LexisNexis components that will assist our investigators in document search, recovery and analysis these critical IT products.

Case Management System – A commercial product used for storing investigative material and producing reports.

TeamMate – A commercial product designed and implemented enhancing OIG's audits production and tracking.

OIG MANAGEMENT ACTIVITIES

All three of these software products are stored on OIG servers with backup at the FCC remote data storage data center. In September 2011 the OIG modified the existing contract supporting the above systems by adding 5 year options for maintaining and supporting these critical IT products.

The OIG currently has an Access database for tracking administrative functions. This system is going to be reconfigured and installed on an SQL server allowing multiple users access for entering administrative data and producing reports. This new concept is being designed to maintain a tracking component for records management.

INTERNSHIP PROGRAM

OIG welcomes college interns during the fall, spring and summer semesters. Most of these students take their internships for credit. Our interns have come from schools across the country including American University, Arizona State University, Boston University of Law School, University of Chicago, DePauw University, Kansas University Law School, New York University Law School, Georgetown University, North Carolina State University, Purdue University, the University of California at Berkeley, the University of California at Davis, the University of Maryland Law School, the University of North Carolina, Xavier University, Liberty College, George Mason University, and George Washington University.

These internships have proven to be rewarding experiences for all participants. Students leave with a good understanding of how a government agency operates, and they have the opportunity to encounter challenges while enjoying the rewards that can come from public service. In turn, the Office has benefited from the students' excellent work performance.

LEGISLATIVE AND POLICY MATTERS

Pursuant to section 4(a)(2) of the Inspector General Act of 1978, 5 U.S.C.A. App. as amended, our Office monitors and reviews existing and proposed legislation and regulatory proposals for their potential impact on the OIG and the FCC's programs and

OIG MANAGEMENT ACTIVITIES

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

During the reporting period, we responded to an inquiry from the General Accountability Office (“GAO”) regarding our compliance with the Dodd-Frank Wall Street Reform and Consumer Protection Act. This Act required GAO to report on the relative independence, effectiveness, and expertise of the Inspectors General. We informed GAO that 1. we had access to independent legal counsel who report directly to our IG instead of our agency’s General Counsel; 2. our budget is identified separately in our agency’s FY 2011 budget; 3. our independence was enhanced by the provision of the 2008 IG Reform Act requiring a two-thirds majority vote for IG removal, and 4. the statutory provisions of the 2008 IG Reform Act regarding IG compensation have been implemented where applicable, thereby maintaining the independence of the IG within our agency.

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

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

AUDIT ACTIVITIES

FINANCIAL AUDITS

PERFORMANCE AUDITS

UNIVERSAL SERVICE FUND OVERSIGHT

AUDIT ACTIVITIES

Under the authority of the Inspector General Act of 1978, as amended, the OIG conducts independent and objective audits and inspections designed to prevent and detect waste, fraud and abuse and to promote economy, effectiveness and efficiency in FCC programs and operations. These audits and inspections are conducted in accordance with professional standards. The following sections are highlights of the work conducted by the audit teams during the current fiscal period.

Financial Audits

Financial statement audits are mandatory and provide reasonable assurance as to whether the agency's financial statements are presented fairly in all material respects. Other objectives of financial statement audits are to provide an assessment of the internal controls over transaction processing for accurate financial reporting and an assessment of compliance with applicable laws and regulations.

Audit of the FCC's Fiscal Year 2011 Consolidated Financial Statements

In accordance with the Accountability of Tax Dollars Act of 2002, the FCC prepared consolidated financial statements for the 2011 fiscal year in accordance with Office of Management and Budget ("OMB") Circular A-136, Financial Reporting Requirements, and subjects them to audit. The Chief Financial Officers Act of 1990, as amended, requires the FCC Inspector General, or an independent external auditor selected by the OIG, to audit the FCC financial statements in accordance with government auditing standards issued by the Comptroller General of the United States ("GAGAS"). Under the direction of OIG, KPMG LLP, an independent certified public accounting firm, is performing the audit of FCC's FY 2011 consolidated financial statements. The audit is being performed in accordance with GAGAS, OMB Bulletin 07-04, as amended, and applicable sections of the U.S. Government Accountability Office ("GAO")/President's Council on Integrity & Efficiency ("PCIE") Financial Audit Manual.

This audit is currently in progress.

AUDIT ACTIVITIES

Performance Audits

Performance audits are systematic examinations that are conducted to assess the performance of a government program, activity, or function so that corrective action can be taken, if appropriate. Performance audits include audits of government contracts and grants with private sector organizations, as well as government and non-profit organizations that determine compliance with contractual terms, Federal Acquisition Regulations ("FAR"), and internal contractual administration.

Oversight of USAC's 2010 Financial Statement Audit and Agreed-Upon Procedures Examination

The OIG performed oversight of the Universal Service Administrative Company's ("USAC") 2010 Financial Statement Audit and agreed-upon procedures ("AUP") related to USAC operations. Section 54.717 of the Commission's rules requires USAC, the USF Administrator, to obtain an annual audit that examines its operations and books of account to determine whether the USAC is properly administering the universal service support mechanisms to prevent fraud, waste and abuse. In response to this requirement, USAC, contracted PricewaterhouseCoopers LLP ("PwC") to perform an audit of USAC's 2010 Financial Statements and to perform the AUP established by USAC and the FCC.

The 2010 USAC financial statement audit was performed in accordance with government auditing standards issued by the Comptroller General of the United States. PwC issued an unqualified opinion on USAC's financial statements and issued a Report on Internal Controls over Financial Reporting and on Compliance and Other Matters dated June 28th 2011. With regard to internal controls over financial reporting, PwC reported one significant deficiency. PwC determined that controls over the process to calculate the allowance for doubtful accounts were significantly deficient and need to be improved. PwC concluded that two significant deficiencies reported in the prior year were properly remediated. PwC did not report any material weaknesses and did not report any instances of non-compliance or other matters that were required to be reported under government auditing standards.

AUDIT ACTIVITIES

The AUP for the year ended December 31, 2010 performed by PwC was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The procedures included a review of the administration of the USF program, audit resolution/follow-up, the disbursement process, corporate governance, program administrative expenses, anti-fraud measures, contributor billing and collections, and a review of selected activities of the High Cost, Low Income, Rural Healthcare and Schools and Libraries Support Mechanisms. The auditors noted several exceptions during the performance of the AUP for which USAC is developing corrective actions to address.

Fiscal Year 2011 Federal Information Security Management Act

The Federal Information Security Management Act (“FISMA”) requires federal agencies to develop, document, and implement an agency-wide program to provide information security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source. According to FISMA, “information security” means protecting information and information systems from unauthorized access, use, disclosure, disruption, modification, or destruction in order to provide integrity, confidentiality, and availability.

A key FISMA provision requires that each OIG annually evaluate its agency’s information security programs and practices. These evaluations must include testing of a representative subset of systems and an assessment based on that testing of the agency’s compliance with FISMA and applicable requirements. To address this requirement, we contracted with KPMG to perform the 2011 FISMA evaluation. This evaluation will be completed by the end of the next semiannual report.

Compliance Audit of Telecommunications Relay Service Providers

The Telecommunications Relay Service (“TRS”) fund compensates communications service providers for the costs of providing interstate telecommunications services that enable a person with hearing or speech disabilities to communicate with a person without hearing or speech disabilities. Video Relay Service (“VRS”) is form of TRS that enables persons with hearing disabilities who communicate in American Sign Language to communicate with voice telephone users through video equipment and an interpreter.

AUDIT ACTIVITIES

The TRS fund has grown substantially since its inception due to the increase in minutes reimbursements claimed but fell sharply for the 2010-2011 fund year. The fund's initial allotment in 1993 for distributions was \$31 million and increased over the next six years to \$38 million in 1999. After 1999, the fund increased approximately 50-80 percent each year and reached \$891 million in the 2009-2010 fund year.

Then, in November 2009, 26 individuals and one corporation providing VRS were indicted for fraudulent program activity. Subsequently, minutes reimbursement claims by all providers fell roughly 18% from the 2009-2010 projection. Minute reimbursement claims have remained at a reduced level since that time. The fund administrator applied the resulting savings and, along with the reduced minutes reimbursement claim amounts, recommended a much lower \$434 million funding requirement for the 2010-2011 fund year.

In fiscal year 2011, we initiated an audit of RSDR forms submitted by the 10 VRS providers for calendar years 2008, 2009 and 2010. The purpose of the audit was to determine whether costs and other information that the VRS providers reported to NECA on the RSDR's were in compliance with applicable laws and regulations and supported by adequate documentation. The audit is in progress and is expected to be completed in calendar year 2011.

Audit of Federal Funds Paid to Telecommunications Relay Service Providers

In fiscal year 2012, we initiated an audit of five VRS providers that received TRS funds in calendar year 2011. The objective of the audit is to determine whether all federal funds reimbursed to these VRS providers were applied in accordance with TRS program requirements and supported by adequate documentation. Additionally, the 2011 audit will follow-up on the findings from prior year audits.

Review of FCC Reporting for Improper Payments

During this reporting period, OIG awarded a contract to KPMG LLP to perform an audit of FCC compliance with the Improper Payments Elimination and Recovery Act of 2010. Public Law 111-204, the Improper Payments and Elimination and Recovery Act

AUDIT ACTIVITIES

of 2010, amended the Improper Payments Information Act of 2002 (31 U.S.C. 3321) and directed in Section 3. (b) that each fiscal year “the Inspector General of each agency shall determine whether the agency is in compliance and submit a report on that determination.” Our report on the FCC’s report will be issued within the second quarter of FY 2012.

Digital Copier and Scanner Inspection

The purpose of our inspection was to determine whether the Commission had established policies and procedures to ensure that digital copiers or scanners, when going off lease or being de-accessioned, contained no sensitive, confidential, or personal data. This inspection was conducted based on discussions with Commission staff and management. We also reviewed relevant Commission policies and procedures. This inspection will be completed by the end of the next reporting period.

Universal Service Fund Oversight

The FCC’s Universal Service Fund (“USF”) program has four support mechanisms:

High Cost support ensures that consumers in all regions of the nation have access to and pay rates for telecommunications services that are reasonably comparable to those services provide and rates paid in urban areas.

Schools and Libraries support, commonly known as “E-Rate,” provides discounts to assist schools and libraries in the United Sates to obtain affordable telecommunications and Internet access.

Low Income support is designed to ensure that telecommunications services are available to low-income customers at just, reasonable, and affordable rates. Similar programs have existed since at least 1985. The Telecommunications Act of 1996 reiterated their importance by including the principle that “consumers in all regions of the nation, including low income customers...should have access to telecommunications and information services...”

AUDIT ACTIVITIES

Rural Health Care support provides reduced rates to rural health care providers for telecommunications services and Internet access charges related to the use of telemedicine and telehealth. The Rural Health Care pilot Program is a pilot funding program designed to facilitate the creation of a nationwide broadband network dedicated to health care, connecting public and private non-profit health care providers in rural and urban locations.

FCC rules require telecommunications providers of international and interstate telecommunications services to contribute to the USF. This includes providers that offer interstate telecommunications for a fee on a non-common carrier basis, interconnected Voice Over Internet Protocol providers and payphone providers that are aggregators.

USF Reform

Reform of the USF programs – Lifeline, High Cost, Schools and Libraries, and Rural Health Care – will have a significant impact on OIG planning and conduct of oversight activities. The allocation of scarce resources to provide the greatest assurance that programs are effective, efficient, and free of fraud, waste, abuse becomes an ever-changing challenge. The goals of the National Broadband Plan and the impact of the transition of the current High Cost Program to a Connect America Fund are significant. In his October 6, 2011 address regarding High Cost, the Chairman indicated the following:

- USF worked in the 20th century. But the program isn't working for the 21st.
- USF is outdated.
- USF is wasteful and inefficient.
- USF is unfair.
- USF is not sufficiently accountable.

Changes to the Schools and Libraries, Low Income, and Rural Health Care programs also present significant challenges as the FCC transitions the existing programs.

AUDIT ACTIVITIES

For example, in the Schools and Libraries program, participants for the Learning-on-the-Go wireless pilot were announced March 9, 2011 with \$9 million in funding year 2011-2012. The Learning-on-the-Go program will investigate the merits and challenges of wireless off-premises connectivity services for mobile learning devices, and to help the Commission determine whether and how those services should ultimately be eligible for E-rate support. Funding will support off-premises wireless access to the Internet in order to improve educational opportunities for students or to help library patrons, for example, find help to find and apply for jobs. Students will have off-campus access to e-textbooks, connectivity for netbooks for students living in remote, isolated areas, and access to flexible, online education programs for home-bound students unable to attend classes. Beneficiaries are required to provide interim reports starting in February 2012 with final reports by October 31, 2012 to enable the Commission to evaluate the program merits and challenges.

The USF Oversight team will continue to monitor and update oversight plans in reaction to current and planned changes to the USF programs.

Staffing

The USF Oversight Team currently consists of an Assistant Inspector General, two Directors, and four staff auditors; there is also a Special Counsel for USF. Recent staff losses have adversely impacted USF oversight activity.

Oversight Activity

Schools and Libraries Program

On June 27, 2011, OIG issued a draft audit report to a large California school district, Pittsburg Unified School District. The objective of this performance audit is to determine the District's compliance with the Federal Communication Commission's rules and orders governing the Universal Service Fund Schools and Libraries Support Mechanism. This audit was selected from a statistical sample of Schools and Libraries

AUDIT ACTIVITIES

Program beneficiaries based on program risk factors. The District provided their comments on the draft audit report on July 12, 2011. A final report is expected to be issued in the next reporting period.

Contributors

During the period, the OIG issued one performance audit report for an audit of telecommunications providers to determine whether the company complied with FCC rules regarding the reporting of revenue information subject to USF contributions. On June 13, 2011, a draft final report for our audit of SmartResort, Inc. was issued to the Office of Managing Director (“OMD”), the Wireline Competition Bureau (“WCB”) and the Universal Service Administrative Company (“USAC”) for comment. Upon receipt of management’s comments we will issue the final report. During the period, the OIG continued work on a performance audit to identify (1) problems with the process of resolving policy questions submitted by USAC to the Wireline Competition Bureau, and (2) instructions to telecommunications carriers for completing the Telecommunications Reporting Worksheet, FCC Form 499-A, that may be unclear or misleading.

Low Income Program

During the period, the OIG continued work on a performance audit of USAC’s administration of the USF Low Income (“LI”) program disbursement system. The purpose of the audit is to determine whether the disbursement system is in accordance with applicable law, and meets the goals of eliminating fraud, waste, and abuse in the federal universal service program. Review of the draft audit report is in progress and we expect to issue the draft version of the audit report during the next semi-annual period.

During the period, the OIG also began to identify a list of LI carriers that it should review based on one or more risk factors. During the next period, the OIG expects to review documents submitted by several carriers in response to our requests for information to support a sample of its Lifeline and Link-up Worksheets, FCC Forms 497.

AUDIT ACTIVITIES

Cooperation with Universal Service Administrative Company Program Oversight

In 1998, the Universal Service Administrative Company (“USAC”) was designated as the permanent Administrator to administer the four universal service programs: high cost, low income, rural health care, and schools and libraries. The USAC Internal Audit Division (“IAD”) provides audit services for the USF programs as well as the internal operations of the administration of the Universal Service Fund.

In February 2010, the FCC directed USAC to establish a comprehensive universal service beneficiary and contributor compliance audit program, which is known as the Beneficiary Compliance Audit Program (“BCAP”). The primary objective of BCAP is to evaluate universal service support mechanism beneficiary and universal service contributor compliance with FCC rules. The audit plan developed covers 343 audits across the support mechanisms and contributors. Consistent with the approach of the OIG universal service audit program for obtaining audit resources, USAC proposed conducting the initial round of 343 BCAP audits almost exclusively with external audit firms. To become more cost efficient and to avoid delay in implementing the audit program, USAC management, with USAC Board of Directors (Board) approval, implemented a plan to move from the fully outsourced staffing model to a partially in-sourced staffing model.

USAC expanded the IAD authorized strength by 23 to 51 positions to conduct the targeted audits it currently performs, increase the capacity to conduct approximately 125 first-round BCAP audits, and manage the remaining 200+ audits outsourced to the audit firms. Current IAD staffing is at 46. USAC IAD initiated BCAP audits in 4th Quarter 2010 and through September 30, 2011; 20 audits have been reviewed and approved by the USAC Board or the appropriate Board committee. An additional 19 audits were presented to the USAC Board at the October 2011 quarterly meeting bringing the total completed BCAP audits to 39. With USAC’s expanded audit staff, 48 audits as of September 30, 2011 were in progress. USAC IAD is projecting to announce 16 audits in 4th Quarter 2011 and an estimated 55 audits throughout 2012. With the planned audit announcements in 2012, USAC IAD is projected to surpass the original 125 audits it planned to perform internally under BCAP, and will begin performing the larger and more complex audits that would have been outsourced to audit firms.

AUDIT ACTIVITIES

The Assistant Inspector General for USF Oversight meets on a regular basis with the Director, IAD to share and discuss audit plans, status, and current issues. It is important to recognize the USAC IAD audit activity as a major contribution to USF oversight.

Support to Investigations

During this reporting period, the USF Oversight team provided the following assistance to the Assistant Inspector General for Investigations:

Review of hotline allegations.

Freedom of Information Act requests (Schools & Libraries).

Review of USAC disbursement data and arranging/separating data in a logical format for review and DOJ discussion including estimated total damages (Schools & Libraries).

Creation of pivot tables and excel spread sheets to assist with analyzing data received from third party. Requested additional information as needed (Schools & Libraries).

Assistance with presentation material to be presented to DOJ (Schools & Libraries).

Program participant related discussions (Low Income).

INVESTIGATIONS

ACTIVITY DURING THIS REPORTING PERIOD

SIGNIFICANT INVESTIGATIVE CASE SUMMARIES

OIG HOTLINE

INVESTIGATIONS

FCC OIG investigations are initiated for numerous reasons. Our investigations often address allegations of fraud in FCC programs, such as the federal Universal Service and Telecommunications Relay Services Fund programs, or other criminal activity or misconduct within the FCC or its programs. Many investigations are based on allegations of employee misconduct, violations of federal law or FCC regulations or other forms of fraud, waste, abuse or criminal activity. We also receive and investigate complaints regarding the manner in which the FCC executes its programs, how the FCC handles its operations administratively, and how the FCC conducts its oversight responsibilities.

Allegations come from all sources. FCC managers, employees, contractors, and other stakeholders often contact the OIG directly with concerns about fraud, waste, abuse, or other inappropriate activities. Individuals call or e-mail the OIG Hotline, or send complaints through the United States Postal Service. The OIG's Hotline is continuously monitored, and any urgent matter is forwarded to the appropriate OIG staff member soon after it is received. The reply times for allegations that require a response are constantly evaluated. The OIG has made Hotline processing a priority, and will continue to do so.

Allegations can be, and frequently are, made anonymously and can require substantive outreach to ensure the potential source is comfortable with the process of providing information to the OIG. Our Office to date has agreed to every accommodation possible as we recognize the value this information provides to every OIG. We also receive valuable referrals from other government agencies, federal, state and local, including the Government Accountability Office, the Office of Special Counsel, and congressional and senatorial offices. In addition, investigations may develop from OIG audits or inspections.

After receiving an allegation of fraud, waste or abuse, we conduct a preliminary review of the matter to determine if further investigation or referral to another office or agency is warranted. Occasionally, serious allegations merit attention, but are outside the jurisdiction of the OIG. These allegations are referred to the appropriate entity, usually another office or bureau in the FCC or another federal or law enforcement

INVESTIGATIONS

agency, for review and action as necessary. To the extent possible, the OIG remains involved and serves as a facilitator for matters that are outside the jurisdiction of this Office. The FCC resources. Therefore, allegations of matters within the jurisdiction of the OIG are reviewed for assignment and priority in a “triage” method. Matters that have the potential to significantly impact federal funds, important FCC missions or programs, or the basic integrity and working of the agency receive the highest priority for investigation and assignment of resources.

The OIG works not only on a large number of investigations, but also on a large variety of investigations. Among other matters, we deal with complex cyber crime investigations, large criminal conspiracies, and cases through the United States and its territories. These complex and wide-ranging cases often require substantial investigative expertise and resources that the OIG itself does not have, which include 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 including OIG of other federal agencies. This cooperation within the law enforcement community has saved this office valuable time and expense on many occasions.

The AIGI and our investigators also work with other agencies, including the U.S. Department of Justice (“DOJ”) and the Federal Bureau of Investigation (“FBI”), to support their criminal and civil investigations and prosecutions relating to the FCC missions and programs. Many of these investigations and prosecutions involve fraud pertaining to the federal universal service program, sometimes referred to as the Universal Service Fund or USF. One of the USF programs that benefits schools and libraries across the nation, often known as the E-Rate Program, has been a prime target for fraud but has also been the focus of joint and coordinated investigation and prosecution efforts by the DOJ and FBI, and the FCC and its OIG. Those efforts have now resulted in a history of successful prosecutions and indictments, and of restitution for such fraud to the USF

Many of the FCC OIG fraud investigations involving the universal service and other FCC programs and activities arise pursuant to the False Claims Act (“FCA”), 31 U.S.C.

INVESTIGATIONS

§ 3729 et seq, as “qui tam” lawsuits. The FCA provides for liability for anyone who knowingly submits or causes the submission of a false or fraudulent claim to the United States. Pursuant to the qui tam provision of the FCA, a private party with evidence of fraud (known as the relator) is able to sue the person(s) engaged in the fraud, on behalf of the government. The FCA provides that the relator’s suit will remain “sealed” and not in the public record for a period of time in which the government can investigate the allegations and decide if DOJ should intervene and prosecute the case for the United States. The FCC OIG assists the DOJ in investigating such qui tam allegations that relate to FCC programs or operations.

Activity During This Rating Period

At the outset of this reporting period, 98 cases were pending. Over the last six months, 12 cases have been closed and 27 opened. As a consequence, a total of 113 cases are pending. These numbers do not include preliminary reviews of allegations, from the Hotline or other sources, or related minor evidence analysis.

Statistics

Cases pending as of April 1, 2011	98
New Cases	27
Cases Closed	12
Cases pending as of April 1, 2011	113

Significant Case Studies

Several of the most recent efforts of this Office are described below. There are, however, many other matters that, due to their sensitive nature or related investigations, cannot be included. We discuss significant investigations when and if information can be made public without negative impact on law enforcement activities or prosecution.

INVESTIGATIONS

Investigations into Fraud in the Federal Universal Service Program

The bulk of the work of FCC OIG Investigations involves investigating and supporting the civil and criminal prosecution of fraud in the FCC's federal universal service program. The AIGI and Investigations staff work with other state, local and federal agencies in these matters. These joint and coordinated investigation and prosecution efforts, especially those of the DOJ and the FCC and its OIG, 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, but below we highlight a few matters that had public developments during the reporting period.

Jeremy R. Sheets

On July 18, 2011, the United States District Court for the Western District of Michigan sentenced Jeremy R. Sheets 15 months incarceration and to pay a \$12,000 criminal fine and \$115,534 in restitution to the FCC's universal service program. Sheets had pleaded guilty to one count of wire fraud in violation of 18 U.S.C. §1343 for his activities related to two Michigan school district's FCC funding applications. Sheets engaged in the wire fraud from approximately December 2001 through December 2007.

Sheets, the president and part owner of an Internet and technology services company, violated FCC rules by compensating two school districts for their share of E-Rate expenses. The FCC's universal service program requires that all applicant schools pay a portion of eligible expenses in order to qualify for funding under the program. Sheets attempted to circumvent this by promising prospective customers that they would not have to pay anything to obtain goods and services under the program. For example, Sheets made a "donation" of approximately \$20,500 in 2004, intending to repay that school district for its share of FCC funded project expenses. In another situation, Sheets exchanged checks with a school district in order to create the false appearance that the school district had paid its portion of expenses under the FCC's program. Additionally, Sheets acted in concert with an employee of that school district whose duties included preparing applications for FCC program

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funds, to order goods and services, which were not otherwise eligible for funding and/or not disclosed to the FCC, and paid for the goods and services out of overcharges to the FCC program. Sheets also provided the employee of the school district with an illegal gift in the form of a used wide screen television and entertainment system.

FCC OIG assisted in the investigation of this case with the FBI, the DOJ Antitrust Division's Chicago Field Office and the U.S. Attorney's Office in Grand Rapids, Michigan.

Gloria Harper, Tyrone Pipkin and Barrett C. White

On June 2, 2011, Gloria Harper pleaded guilty in United State District Court in New Orleans to participating in a conspiracy to defraud the FCC universal service program by providing bribes and kickbacks to school officials in Arkansas, Illinois and Louisiana. Harper, a former co-owner of Global Networking Technologies Inc. (GNT) and former owner of Computer Training Associates (CTA), acted on her behalf and on behalf of GNT and CTA, and participated in the conspiracy beginning on or about December 2001 through September 2005. Additionally, Barrett ("Barry") White was sentenced on June 9, 2011 to a year and a day in prison and ordered to pay a \$4,000 criminal fine for his part in the conspiracy. White had pleaded guilty in United States District Court in New Orleans in March to one count of conspiracy to defraud the FCC's universal service program. Finally, on June 21, 2011, Tyrone Pipkin was sentenced to serve a year and a day in prison and to pay a \$6,000 criminal fine for his role in the conspiracy. Pipkin, who was the co-owner of GNT, pleaded guilty in March to participating in a conspiracy to defraud the FCC's universal service program. White and Harper were also indicted in July 2011 for facilitating bribes paid to school bus contractors. Harper, a former North Chicago school board member, was accused of taking kickbacks totaling at least \$800,000 over 10 years from contractors who had been awarded lucrative school bus contracts worth at least \$21 million.

Harper's sentencing is scheduled for December 25, 2011. Harper faces a potential maximum penalty of five years imprisonment, restitution, and a \$250,000 fine, which might be increased to twice the gain derived from Harper's crime or twice the loss suffered by the victims of the crime if either amount is greater than the statutory maximum fine.

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White had pleaded guilty to conspiring to defraud the FCC's program by offering and delivering bribes and kickbacks to school officials in multiple states. White provided the bribes and kickbacks to school officials who were responsible for the procurement of Internet access services in return for FCC universal service contracts with his co-conspirator's companies.

The FCC has suspended Pipkin and White from participation in the E-Rate program and begun debarment proceedings against both.

FCC OIG assisted in this investigation with the FBI, the DOJ Antitrust Division's Dallas Field Office and the U.S. Attorney's Office in the Eastern District of Louisiana.

Jonathan M. Slaughter

On September 29, 2011, Jonathan Slaughter pleaded guilty in United States District Court for the Middle District of Alabama to one count of mail fraud stemming from his theft of nearly \$900,000 from the FCC's universal service program, money intended for 20 school districts or private schools in 13 states through the program's Billed Entity Reimbursement ("BEAR") process. The BEAR process permits a school or library to pay the full amount for eligible services and then receive reimbursement from its telecommunications service provider once the related universal service discount subsidies are approved and paid to the provider.

Slaughter was the president and owner of E-Rate Consulting Services, LLC (ERC) in Montgomery, Alabama where he and his company assisted schools and libraries in their efforts to qualify for FCC program funding. As part of its arrangement with its clients, ERC would receive checks from the FCC's universal service program that were payable to ERC's clients.

ERC was obligated to forward the checks to its clients, but from May 2006 through January 2009, Slaughter converted a number of the client checks to his own use. Slaughter deposited the checks into an ERC bank account and kept the money, which he used largely for personal expenses. The total amount stolen, \$891,987.85, was taken

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from schools located in Arkansas, Florida, Idaho, Massachusetts, Minnesota, Missouri, Nebraska, New Hampshire, North Carolina, Ohio, Pennsylvania, Tennessee and Texas.

Slaughter's sentencing is scheduled for later in 2011 and he faces a maximum sentence of 20 years imprisonment.

FCC OIG assisted in this investigation with the FBI, the Office of Inspector General for the Department of Education and the U.S. Attorney's Office in the Middle District of Alabama.

Investigation into Fraud in the Federal Communications Commission Telecommunications Relay Service

The FCC OIG is continuing its work with the Criminal Division of DOJ, the FBI and the United States Postal Inspection Service on several fraud investigations involving fraud on the FCC's Telecommunications Relay Service ("TRS") Fund program.

The FCC established the TRS program pursuant to section 225 of the Communications Act of 1934, as amended. Section 225 requires the FCC to ensure that TRS is "available to the extent possible and in the most efficient manner to hearing-impaired and speech-impaired individuals in the United States." 47 U.S.C. § 225. TRS permits hearing- or speech-impaired individuals to communicate over the telephone or other telecommunications transmissions by using a trained interpreter called a communications assistant.

Private sector entities that are either part of certified state programs or certified by the FCC provide TRS for telecommunications calls to or from hearing or speech impaired individuals and are then compensated through the FCC's TRS program at a rate, set by the FCC, per minute of use, as reported monthly by the entity to the FCC's TRS Fund Administrator. The TRS program is funded by assessments on interstate telecommunications carriers that are passed on to consumers through the rates they pay for telecommunications services.

Video Relay Service ("VRS") is a form of TRS that allows individuals with hearing disabilities to use American Sign Language to communicate with voice telephone users through video equipment, a broadband connection, and use of a communications assistant who is a trained video

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interpreter (“VI”). Until just recently, VRS-related claims on the FCC’s TRS Fund increased significantly. 80% of TRS Fund payments are made to VRS providers.

Prosecutions of those indicted in November 2009 on allegations of submitting false or fraudulent claims for reimbursement for VRS continued apace during this reporting period. As of this date, DOJ has obtained guilty pleas from, or convictions of, 25 of those indicted. Two cases, one against an individual defendant and one against a corporate defendant, remain pending.

During the reporting period, the DOJ Criminal Division obtained two additional guilty pleas from individuals indicted in November, 2009, for defrauding the interstate TRS Fund in connection with the provision of VRS.

On June 1, 2011, Oksana Strusa, an employee at Deaf and Hard of Hearing Services, Inc. (“DHIS”), which had VRS call centers in New York, New York and Colonia, New Jersey, pleaded guilty to one count of conspiracy to commit mail fraud, in violation of 18 U.S.C. Section 1349. Ms. Strusa faces a statutory maximum sentence of twenty years in prison, a fine of \$250,000 and mandatory restitution. With the plea, criminal charges against all DHIS defendants have been resolved. All defendants await sentencing.

On September 12, 2011, Doris Martinez, the registered agent for Deaf Studio 29 Inc.; Verson Studio, Inc.; and Deaf News Network, Inc. (collectively “Verson Studio”) with operations in Huntington Beach, California and co-defendant with Marc Velasquez Verson and Ellen Thompson, pleaded guilty to one count of conspiracy to submit a false claim, in violation of 18 U.S.C. Section 371. Ms. Martinez faces a statutory maximum sentence of five years, a fine of \$250,000 and mandatory restitution. With the plea, criminal charges against all Verson Studio defendants have been resolved. All defendants await sentencing.

The FCC OIG continues to receive and investigate allegations of fraud on the TRS Fund through use of VRS. The allegations of fraud often involve schemes to defraud the TRS Fund through fake marketing or outreach calls or other methods of “pumping” the minutes of use for which specific VRS providers are compensated. Such allegations include,

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among others, that VRS subcontractors employ or otherwise pay deaf callers to make purported outreach or marketing calls to various public institutions (schools, libraries, hospitals, departments of motor vehicles) or to private entities (airlines, recorded earnings reports, movies), but whose real purpose is simply to generate VRS minutes. The FCC OIG and the DOJ continue to investigate and will prosecute those who would defraud the FCC's TRS Fund and the United States.

Investigations into Fraud in Recovery Act Funded FCC Contracts

The American Recovery and Reinvestment Act of 2009 ("ARRA" or "Recovery Act") specified two programs under which the FCC had responsibilities: the Digital-To-Analog Converter Box Program (DTV) and a program to develop a national broadband plan. As of September 30, 2011 the Commission had two responsibilities: the Digital-to-Analog Converter Box Program (DTV) and a program to develop a national broadband plan.

As of September 30, 2011 the Commission had obligated over \$98 million of the Recovery Act funds and had paid out over \$94 million in furtherance of these programs. Of the \$98 million in obligations, \$62 million was obligated for DTV-related contract awards and \$36 million was obligated for contract awards related to development of a national broadband plan.

The nation-wide DTV transition occurred on June 12, 2009. The digital deadline prompted consumers across the nation to enlist the services of vendors working under contract with the FCC to provide free in-home installation of converter boxes. Installation vendors performed an estimated 286,000 successful installations nationwide. Installation assistance services ceased on August 31, 2009. During the weeks surrounding the transition date, the FCC also set up DTV information centers throughout the United States so consumers could obtain first hand demonstrations and information about DTV. The FCC has provided thousands of consumers with help with their DTV related questions through the FCC Call Center as well. All Recovery Act funded DTV activities ceased as of September 30, 2010. The FCC Call Center remains available to help consumers with DTV related questions but is no longer funded with Recovery Act funds.

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The FCC has also completed its work with regard to the development of a national broadband plan. The goal of the National Broadband Plan was to ensure that all people of the United States have access to broadband capability and establish benchmarks for meeting that goal. The Plan was publicly released on March 16, 2010 and is available at: www.broadband.gov. Since delivering its plan to Congress, the FCC continues to work with NTIA and Department of Agriculture to move Recovery Act programs forward.

The FCC OIG has received and continues to receive allegations of fraud, waste, abuse and misconduct in the Recovery Act programs from a variety of sources, including the OIG Hotline, news reports, and the FCC's Office of Managing Director. Presently, the FCC OIG has 28 active investigations. OIG investigations have revealed indications of fraud, as well as a number of contractual problems including invoice issues and verification of performance.

OIG HOTLINE

During this reporting period, the OIG Hotline technician received numerous calls to the published hotline numbers of (202) 418-0473 and 1-888-863-2244 (toll free). The OIG Hotline continues to be a vehicle by which Commission employees and parties external to the FCC can contact OIG to speak with a trained Hotline technician. Callers who have general questions or concerns not specifically related to the missions or functions of the OIG office are referred to the FCC Consumer Center at 1-888-225-5322. In addition, OIG also refers calls that do not fall within its jurisdiction to other entities, such as other FCC offices, federal agencies and local or state governments. Examples of calls referred to the Consumer Center or other FCC offices include complaints pertaining to customers' phone service and local cable providers, long-distance carrier slamming, interference, or similar matters within the program responsibility of other FCC bureaus and offices.

During this reporting period, we received 1,403 Hotline contacts, which resulted in OIG taking action on 62 of these. The remaining calls were forwarded to the FCC Consumer Center (782 calls) and the Federal Trade Commission (559 calls).

REPORTING REQUIREMENTS

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

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

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

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

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

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

No significant recommendations remain outstanding.

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

Please refer to the section of this report titled "Investigations."

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

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

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

Each audit report issued during the reporting period is listed according to subject matter and described in the "Audit Areas" section. We issued no reports with questioned costs or recommendations that funds be put to better use during the reporting period.

REPORTING REQUIREMENTS

7. A summary of each particularly significant report.

Each significant audit and investigative report issued during the reporting period is summarized within the audits and investigations sections and in Tables I and II of this report.

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

We issued no reports with questioned costs during the reporting period.

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

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

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

No audit reports fall within this category.

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

No management decisions fall within this category.

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

No management decisions fall within this category.

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

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

APPENDIX

Results of Peer Reviews

As required by Public Law 111-203, we are pleased to report that the OIG of the Equal Employment Opportunity Commission conducted a peer review of this office during the reporting period and its review disclosed no recommendations for any corrective actions. The peer review report, dated August 3, 2010, concluded the system of quality control for the FCC OIG provides reasonable assurance of performing and reporting audits in conformity with applicable professional standards in all material respects and FCC OIG has received a peer review rating of *pass*.

In addition, we completed a peer review of the National Archives and Records Administration (“NARA”) OIG during the reporting period. The peer review report, dated September 22, 2011, concluded the system of quality control for the NARA OIG provides reasonable assurance of performing and reporting audits in conformity with applicable professional standards in all material respects and NARA OIG has received a peer review rating of *pass*.

Report fraud, waste or abuse to:

Email: Hotline@FCC.gov

Call Hotline: 202-418-0473
or
888-863-2244



Office of Inspector General

Federal Communications Commission

445 12th Street S.W. Room 2-C-762

Washington, DC 20554

WWW.FCC.GOV