



Office of Inspector General Federal Communications Commission

**Semiannual Report to Congress
April 1, 2012 through September 30, 2012**

The Federal Communications Commission



(left to right)

Commissioner Jessica Rosenworcel, Commissioner Robert M. McDowell, Chairman Julius Genachowski, Commissioner Mignon Clyburn and Commissioner Ajit Pai.

Cover Memorandum

OFFICE OF INSPECTOR GENERAL

DATE: September 30, 2012

TO: Chairman, Federal Communications Commission
Commissioner Robert McDowell
Commissioner Mignon Clyburn
Commissioner Jessica Rosenworcel
Commissioner Ajit Pai


FROM: Inspector General

SUBJECT: Semiannual Report to Congress

In accordance with Section 5 of the Inspector General Act, as amended, 5 U.S.C. App. 3 § 5, I have attached my report summarizing the activities and accomplishments of the Office of the Inspector General ("OIG") during the six-month period ending September 30, 2012. 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 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 FCC consists of a Chairman and four Commissioners, who are appointed by the President and confirmed by the United States Senate. Julius Genachowski serves as Chairman. Robert M. McDowell and Mignon Clyburn serve as Commissioners, and during the reporting period two new Commissioners were named, Jessica Rosenworcel and Ajit Pai. OIG welcomes the new Commissioners and we are pleased that the FCC once again has a full complement of leadership. 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 Commission. In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Inspector General ("IG"), David L. Hunt, reports directly to the Commission. Management matters are coordinated with the Chairman's office. The IG's staff consists of attorneys, auditors, economists, investigators, management specialists and support personnel. Principal assistants to the IG are: Thomas C. Cline, Deputy IG; William K. Garay, Assistant Inspector General ("AIG") for Audits; Gerald T. Grahe, AIG for Universal Service Fund Oversight; Harold F. Shrewsbury, AIG for Management; Jay C. Keithley, Acting 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, 2012 through September 30, 2012, as well as information on the IG's goals and future plans.

OIG MANAGEMENT ACTIVITIES

Office Staffing

OIG is comprised of 23 Full Time Equivalent (“FTE”) and 10 Not To Exceed (“NTE”) term appointed professionals, and five FTE and one NTE support personnel. The staffing needs of this office have been described in the last several Semiannual Reports. Several activities related to staffing, as well as our own plans for the organization of the Office, have occurred in the six-month reporting period.

OIG had requested funds in the last three fiscal year (“FY”) budget requests for additional staff. Significant additional funds were provided to OIG in the FY 2012 budget authorization, but we were not provided a specific FTE allocation. However, actions taken by the agency have addressed this issue.

FCC has segregated OIG’s budget out of the agency’s, and OIG now has a separate budget allocation rather than being subsumed by the FCC budget. As well as instituting procedures to ensure we protect the resources entrusted to us, we are implementing a hiring plan that will expand our resources and staffing and greatly improve our capabilities to meet the expectations of the FCC, Congress and the public. We have recently added an administrative support person to our staff and are in progress on hiring four auditors, a computer forensics investigator, an investigative attorney and two criminal investigators.

Our Office had the misfortune to see the passing of one of our most senior staff members during the reporting period. Mr. Kimberly Bumstead passed away on July 18, 2012. Kim was a member of our Office for over eight years and was a recognized expert on the E-Rate program under the Universal Service Fund.

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, the Inspector General Criminal Investigative Academy, other Inspectors General training programs and other relevant venues.

Two of our employees obtained certifications during the reporting period. William Garay, AIGA, obtained both Certified Forensic Interviewer and Certified Fraud Examiner certifications during the period. Christopher Shields, one of our investigatory attorneys, obtained Seized Computer Evidence Recovery Specialist (“SCERS”) certification.

Subsequent to the reporting period, on October 16, 2012, Jay C. Keithley, FCC Acting Assistant Inspector General for Investigations and Sharon R. Diskin, Special Counsel, received an Award for Excellence in Investigations at the 15th annual Council of the Inspectors General on Integrity and Efficiency Awards Ceremony held in Washington, D.C. The award was given in

OIG MANAGEMENT ACTIVITIES

recognition of their work in support of the Telecommunications Relay Service.

Information Technology (“IT”) Initiatives

Communications

All OIG staff is issued Blackberry wireless devices enhancing staff’s ability to communicate remotely and to fulfill emergency contact notification and for meeting continuity of operations requirements. The IG and Deputy IG are currently testing advanced communication devices and we plan to expand this program in the upcoming fiscal year.

Computers

All OIG staff is issued laptop computers configured with a built in wireless card for accessing the FCC network through a virtual private network connection. OIG is issuing new and faster laptop computers to staff beginning in October 2012.

Tools

OIG maintains global positioning devices, digital cameras, portable printers and scanners, Iron Key secure thumb drives and digital voice recording devices. OIG has external hard drives capable of storing all of our sensitive data as a remote, non-online data storage.

Automated Systems

OIG has completed the implementation of systems and software products designed to improve OIG data management in the area of investigations and audits.

LexisNexis – A commercial-off-the-shelf (“COTS”) product with the following components:

- Concordance
- Pre-Law
- CaseMap

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

TeamMate – A COTS product designed and implemented enhancing OIG’s audits production and tracking.

All three of these software products are stored on isolated OIG servers with remote backup at

OIG MANAGEMENT ACTIVITIES

the FCC remote data storage data center.

These IT initiatives expand OIG capabilities for managing OIG program and project data requirements.

OIG is in the process of installing a storage area network (“SAN”) as a dedicated network that provides access to consolidated, block level data storage. SANs are primarily used to make storage devices, such as disk arrays, tape libraries, and optical storage devices accessible to servers so that the devices appear as locally attached devices to the operating system.

OIG has contracted with an 8(a) Small Business Administration (“SBA”) certified small business for converting hard copy documents into electronic documents. This project will enhance the capability of investigators and auditors to search documents and data used for audits and investigations.

In FY 2012 OIG contracted with several 8(a) SBA certified small businesses for audit and litigation services. This initiative supports the President’s and Congressional goals for awarding contractions to small disadvantaged businesses. Based on the quality of the work and efficiency of this small disadvantaged business the OIG will continue this initiative.

In September 2012, the IG added funds to an FCC contract that supports the agency network. This funding will provide for a designated IT specialist specifically dedicated to maintaining and modernizing OIG IT hardware and software products.

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

OIG MANAGEMENT ACTIVITIES

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. We have responded to several Congressional inquiries during the reporting period, and we have named a senior staff member as a Congressional Liaison Officer.

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

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 reporting 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 Federal Communications Commission Fiscal Year 2011 Consolidated Financial Statements

In accordance with the Accountability of Tax Dollars Act of 2002, the FCC will prepare consolidated financial statements for FY 2012 in accordance with Office of Management and Budget ("OMB") Circular A-136, Financial Reporting Requirements, and subject them to audit. The Chief Financial Officers Act of 1990, as amended, requires the FCC IG, or an independent external auditor selected by the IG, 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 ("KPMG"), an independent certified public accounting firm, is currently performing the audit of FCC's FY 2012 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.

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.

AUDIT ACTIVITIES

Fiscal Year 2012 Federal Information Security Management Act Evaluation

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 FY 2012 FISMA evaluation. This evaluation will be completed during the next semiannual reporting period.

Audits 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 a 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.

VRS providers are reimbursed from the TRS fund for minutes of service provided, at the rates established by the FCC. The TRS fund has grown substantially since its inception due to the increase in minutes of service 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 to 80 percent each year and reached \$891 million in the 2009-2010 Fund year.

Audit of Federal Funds Paid to Telecommunications Relay Service Providers

Per our audit plan, we initiated audits of five VRS providers to determine whether all federal funds received in by them 2011 were applied in accordance with TRS program requirements and supported by adequate documentation.

AUDIT ACTIVITIES

Additionally, the audits will follow-up on the findings from prior years' audits. One of the five provider audits, Sorenson Communications, Inc., was completed in this reporting period and is discussed in the next section. The remaining audits are in progress and are expected to be completed by December 31, 2012.

Audit of Sorenson Communications, Inc.

We completed an audit of Sorenson Communications, Inc. ("Sorenson") during this reporting period. Sorenson received the majority of the total VRS cash payments made to all VRS providers in 2011.

The audit concluded that, while Sorenson provided adequate support for their costs and resolution of prior year's audit findings was in progress, not all of the VRS funds received by Sorenson were applied in accordance with the TRS program.

The auditors found that TRS funds received by Sorenson did not compensate for only the reasonable costs of providing access to the VRS. Costs reported on a Relay Service Data Request ("RSDR") submitted by a provider should reflect the reasonable and allowable costs of providing VRS. The RSDR is filed annually by VRS providers and includes actual operating cost information for the preceding two years. In 2011, Sorenson received significantly more in VRS compensation than what they reported on their RSDR. This excess, for 2011 alone, amounts to a substantive amount of money and points to a significant problem with the FCC's VRS compensation mechanism. The audit also noted that a significant portion of the funds received from the TRS fund was used to pay the interest expense of Sorenson's long-term debt from which significant dividends were paid to company shareholders. Information in the audit report regarding debt and negative equity position leads OIG to conclude the company at considerable risk.

Agency Verification of American Reinvestment and Recovery Act Funds

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 March 1, 2012, 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.

OIG performed a review of the FCC's verification of funds provided by the ARRA to the FCC to assist Americans in their transition to DTV. The Recovery Accountability and Transparency Board ("RATB" or "the Board") requested that Offices of Inspectors General assist with coor-

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dinating an Agency review of funds authorized under the ARRA. Specifically, the Board required that Agencies:

- confirm the accuracy of appropriation amounts for each Treasury Appropriation Fund Symbol (“TAFS”),
- confirm the obligation amount reported on the ARRA Financial Activity Report, and
- provide a list of ARRA funds that had expired or were expected to expire by TAFS.

The Board requested that the Offices on Inspectors General perform an optional cursory review of management’s review of ARRA funds and its response to the Board.

In its report to the Board, FCC management confirmed the accuracy of its ARRA appropriations for each TAFS and noted that the previously reported data did not require any revisions. Because the FCC did not receive any direct ARRA appropriations, management also reported the funding source for all ARRA funds that it received. Additionally, management confirmed that it had transferred all unexpended funds to the Department of the Treasury or the National Telecommunications and Information Agency, and thus did not have any expired or expiring funds to report to the Board.

OIG’s review was limited to inquiries with FCC management about its procedures for confirming the accuracy of ARRA appropriations and obligations and its methodology for identifying expired or expiring funds. Our review did not identify any errors, omissions or deficiencies in FCC management’s procedures for reporting of ARRA appropriations, obligations, and expired or expiring funds. We issued our memorandum on this review on August 23, 2012.

Inspection of Jobs Created by American Reinvestment and Recovery Act Funds

OIG performed an inspection of FCC’s reporting of jobs created by contractors funded with ARRA funds. The Recovery Act required contractors to report the number of jobs created or retained as a result of contracts paid for by Recovery Act funds.

Section 1512 of the American Recovery and Reinvestment Act of 2009 and OMB guidance require recipients (such as contractors) and subrecipients (such as subcontractors) of Federal assistance awards to report on the nature of projects and the number of jobs created or retained using Recovery Act funds. This information must be reported quarterly by recipients to Federal Reporting.gov, a nationwide data collection system created and managed by OMB and the Recovery Accountability and Transparency Board. To provide transparency in the use of Recovery Act funds, the reports are then made available to the public on the Recovery.gov web

AUDIT ACTIVITIES

site and individual agency web sites.

Our inspection of supporting documentation from four selected FCC contractors resulted in the following conclusions.

1. One contractor properly supported and calculated the number of jobs created or retained according to the Recovery Act and OMB guidelines. The contractor was able to accurately track hours worked by its employees with the assistance of a time recording system, Kronos, developed by the FCC to monitor contract work.
2. One contractor did not have data to support the number of jobs they reported as created or retained by contracts funded with Recovery Act dollars. The majority of the work was performed by subcontractors on these DTV contracts. The prime contractor did not collect data from subcontractors to accurately calculate the number of jobs created or retained by Recovery Act funds.
3. Two contractors submitted data with material errors and omissions, therefore, we could not determine if the jobs reported by these contractors were accurate.
4. We questioned the accuracy of the job calculations and, in some instances, the data used in these job calculations by contractors. However, due to the small sample size, we could not calculate the impact on the nationwide data.

Subsequent to the semiannual reporting period, we issued our report on this inspection. FCC management reviewed and agreed with the report's conclusions.

The following audits were initiated in September 2012.

Audit of Revenues Received by VRS Providers

We continue to follow up on VRS audit issues and have initiated additional audits in September 2012 on all the VRS providers including Sorenson. The objective, as before, is to determine whether all federal funds received in 2012 by the providers were applied in accordance with TRS program requirements and are supported by adequate documentation.

Web Security Audit

The purpose of the Web Security audit is (1) to assess the adequacy and the effectiveness of the controls over the web site environment, (2) determine the adequacy of and compliance with the FCC's website related directives, policies, and procedures, and (3) determine the Commission's compliance with the National Institute of Standards and Technology ("NIST") guidance regard-

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ing web site management and security, including security in public cloud computing.

Red Light Rule Audit

OIG has initiated an audit of the FCC's Red Light Rule, which is part of FCC's debt collection effort, for fiscal years 2011 and 2012. This audit will (1) determine the effectiveness and accuracy of the recording and reporting of debt owed to the FCC; (2) evaluate the efficiency of collecting debt owed to the FCC; (3) assess the adequacy and the effectiveness of the internal controls over the process of tracking, collecting, and reporting debt owed to the FCC; and (4) determine the FCC's compliance with applicable laws and regulations as well as directives, policies, and procedures related to the Red Light Rule.

TRS Fund Administrator Audit

The overall objective of this audit is to determine whether the TRS fund administrator has administered the TRS fund in accordance with the FCC Rule (47 C.F.R Section 64.604), and the requirements set forth in its contract (as TRS Fund Administrator) with the FCC.

RSDR Projections Audit

This audit will focus on whether the projected costs reflected on the provider-submitted RSDR have supportable basis. These projected costs are important because they are significantly considered when VRS compensation rates are set for the future year(s).

The audit has three objectives. The first is to determine and collect what calculations, evidence, analysis, and assumptions (collectively "basis") were used to arrive at the projections reflected on RSDR's submitted by the listed VRS providers for years 2008, 2009, 2010 and 2011.

The second objective is to determine whether such basis had merit. Criteria for merit include reasonableness, existence, methodology integrity, occurrence and relevant history.

The third objective is to determine, in cases where the criteria for merit is deficient or absent, the reasons for such deficiency or absence including intent.

Social Media Audit

The overall objective of this audit is to determine if the FCC properly protects and manages information, including personally identifiable information ("PII"), associated with social media use. This audit will determine if the FCC has adequate controls in place to properly manage and safeguard information, including PII, collected and disseminated thru the use of social media. The audit will also determine if the FCC is in compliant with federal records management,

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privacy, and security laws as they relate to the FCC's social media use.

Physical Security Audit

The objective of this audit is to provide an assessment of physical security at the FCC's headquarters in Washington D.C. and the FCC's Gettysburg, PA facility.

Administrative Operations Audit

The objectives of this audit include testing the adequacy of and compliance with the FCC's Administrative Operations' directives, policies, and procedures to include reviewing contracts, Quality Assurance Surveillance Plans ("QASPs"), and payments to vendors.

OMB Circular A-130 Audit

OMB Circular A-130, "Management of Federal Information Resources," requires agencies to establish and maintain an integrated capital planning and investment control process that links resources to results in its three phases, namely: selection, control and evaluation. The objective of this audit is to determine whether the FCC is complying with all aspects of the Circular.

Civil Monetary Penalties Audit

The objectives of this audit are to evaluate the effectiveness of internal controls and compliance as it relates to the FCC'S management of Civil Monetary Penalties.

Universal Service Fund Oversight

The Universal Service Fund ("USF") oversight team conducts audits, inspections, and other reviews designed to prevent and detect waste, fraud, and abuse and to promote economy, effectiveness, and efficiency in the Universal Service Fund programs.

Permanent staffing includes the AIGUSF, two Program Directors, and one staff auditor. A third Director is being added to direct High Cost oversight activities. Additional staff includes a Special Counsel (who also serves as Director of the Special Projects group) and two staff auditors. The team is organized into four operational units:

- Schools and Libraries/Rural Health Care
- Contributors/Low Income
- High Cost
- Special Projects

AUDIT ACTIVITIES

The USF Programs

The FCC’s USF programs include four principal 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 provided 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 States and territories to obtain affordable telecommunications and Internet access. The Learning On-the-Go Pilot Program is a pilot program to explore how E- Rate can help schools and libraries offer off-premises wireless access to the Internet.
- 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.
- 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.

OIG is also responsible for oversight of USF receipts collected from telecommunications providers of international and interstate telecommunications services (these providers are referred to as contributors to the USF).

USF program disbursements are significant, as highlighted by the 2011 approved disbursements (unaudited) shown below:

High Cost	\$4,031,268,000
Schools & Libraries	\$2,232,539,000
Low Income	\$1,750,728,000
Rural Health Care	<u>\$ 81,461,000</u>
	<u>\$8,095,996,000</u>

Including contributions, the total amount of federal funds requiring oversight is approximately \$16 billion.

AUDIT ACTIVITIES

USF Reform and Oversight Planning

USF program reform continues to have a significant impact on OIG's oversight planning. High Cost reform includes "policies to transition an outdated and inefficient high-cost program into the Connect America Fund," making broadband available in areas that would not have it. The *Lifeline Reform Order*, which became effective April 2, 2012, adopts performance goals and makes many changes to modernize the program and to reduce waste and abuse. The changes include establishing uniform eligibility criteria and annual verification procedures, and simplified, reimbursement procedures. The Schools & Libraries program experienced significant change in 2010 with the release of the *Sixth Report and Order*. Among other items, the Order allows applicants to provide community use of E-rate funded services outside school hours, simplifies certain administrative requirements and provides improved safeguards against waste, fraud and abuse through strengthened gift rules and codifying the requirement that competitive bidding processes be fair and open. Changes to Rural Health Care and Contributor related requirements are also being considered. This office continues to follow implementation of orders, including rule changes, impacting all facets of the USF programs.

To address this challenge, we initiated a vulnerability analysis/risk assessment of the USF programs. We continue to gather and catalog data including, but not limited to, previous audit findings, proposed and/or implemented changes in the programs, GAO reports and comments, the USAC Annual Report, results of investigations, and published articles and news items. With the data gathering step substantially complete, we continue to sort and organize data by program. Data will highlight the areas where a program is more vulnerable to fraud, waste, and abuse. Finally, we will assess the risk associated with the vulnerabilities identified and direct resources accordingly.

Compliance Assessment Program Overview

As part of our effort to ensure beneficiary and participant compliance with USF programs regulations and to evaluate effectiveness of the programs, OIG is initiating a new program to evaluate compliance, efficiency, and effectiveness of USF programs – the Compliance Assessment Program ("CAP"). A CAP review is comprised of targeted audit procedures and will enable us to direct limited resources to the highest risk compliance areas and issue inspection reports in a timely manner. Areas of focus will change as we adopt them to cover only the highest risk areas and discover systemic issues that may require full scope audits. CAPs are performed under the Inspections and Evaluations Quality Standards issued by the Council of the Inspectors General on Integrity and Efficiency ("CIGIE").

We are currently testing this approach for the Schools and Libraries program, and we plan to expand the CAP process to other USF programs if it proves to be an effective tool.

AUDIT ACTIVITIES

Program Oversight Activity

Schools and Libraries/Rural Health Care Programs

During this reporting period, we completed planning and initiated a CAP to test beneficiary compliance with the Schools and Libraries rules and regulations and to provide insight into program effectiveness. The work plan includes specific areas based on prior audit findings. We announced our pilot CAP of a Washington D.C. Public Charter School on September 27, 2012, and plan to issue our report during the next reporting period.

On September 12, 2012, we completed an audit of a school in Baltimore, Maryland and sent our draft final report to FCC management for comment. We conducted a performance audit of school's compliance with FCC's rules and orders governing the Schools and Libraries Support Mechanism in accordance with generally accepted government auditing standards relative to selected disbursements related to funding years 2008 and 2009. We plan to issue the final report during the next reporting period.

Due to staffing constraints, oversight activity for the Rural Health Care Program was limited to monitoring activity. We hope to either hire additional auditors or hire outside contractors to assist OIG in its oversight efforts during FY 2013.

Contributors/Low Income Program

During this reporting period, the USF Contributors and Low Income team continued to analyze the 14 limited scope reviews (audit surveys) of information to support the FCC Form 497 Lifeline and Link Up Worksheet and reporting subscriber information reported on in our last semi-annual report. The purpose of our reviews is to determine the accuracy of the information reported on the FCC Form 497, which was used for purposes of calculating Lifeline and Link Up support for the low-income universal service support mechanism.

During this period, we completed the risk assessments for four of the providers and decided to proceed with full scope audits of three and a limited scope survey of one. Fieldwork was completed on two providers – Easy Telephone and Absolute Home Phones and reports are in progress; all other surveys and audits are in progress. We have also leveraged our limited audit resources by testing the reasonableness of the annual USF Contributor reports (FCC Forms 499-A) filed by the Low Income providers, concurrently with our Low Income audit fieldwork.

We completed a list of top risk areas of the USF Contributors and Low Income programs based on our analysis of prior audit activity and two key documents issued by the FCC during the year: the NPRM for Reform of the USF Contribution Methodology (FCC 12-46) issued April 30, 2012, and the Lifeline Reform Order (FCC 12-11) issued February 6, 2012.

AUDIT ACTIVITIES

We also assisted the OIG investigative team's review and analysis of a Federal False Claims Act lawsuit related to USF contributions.

High Cost Program

Due to a lack of staffing, no High Cost oversight projects were initiated or completed during this reporting period. We are scheduled, however, to rehire a former OIG staffer who has extensive expertise in this program and to hire new auditors to staff this team and expand our oversight capabilities.

Special Projects

- In accordance with Office of Management and Budget Memorandum for the Heads of Executive Departments and Agencies, M-11-16, dated April 14, 2011, OIG engaged the services of independent certified public accounting firm KPMG LLP to audit FCC compliance with the Improper Payments Elimination and Recovery Act (Pub. L. 111-204) ("IPERA"). On September 26, 2012, the OIG team met with KPMG representatives to kick off the FY 2012 compliance audit.
- During this reporting period, this Office regularly reviewed the periodic Payment Quality Assurance ("PQA") reports issued by the Universal Service Administrative Company ("USAC") as prepared to implement IPERA pursuant to methodology approved by the Office of Management and Budget.
- On a regular basis this Office also attended monthly meetings between USAC and the Commission's Office of the Managing Director at which various USF related topics, including PQA reports, were discussed.

Universal Service Administrative Company – Internal Audit Division

- The AIG for USF Oversight meets with the Vice-President of USAC's Internal Audit Division ("IAD") to share and discuss audit plans, status, and current issues. In addition, OIG Program Directors meet with their IAD counterparts to discuss issues specific to their respective areas of responsibility.
- On September 13, 2012, the USF Oversight team staff attended IAD's annual staff training on the High Cost Programs, Rural Health Care Programs, Low Income Programs, and Contributor issues. Training highlighted program changes and provided an excellent forum to discuss audit findings and developments in the various programs.

INVESTIGATIONS

OIG investigations cover 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 false claims. We deal with complex cybercrime 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, and particularly, the Department of Justice ("DOJ") and the Federal Bureau of Investigation ("FBI").

OIG 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 various sources including FCC managers and employees, contractors, program stakeholders, and whistle blowers.

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

OIG, 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.

Modernizing the Office of Investigations

OIG continues to focus on improving the efficient use of scarce resources and makes every effort to find and utilize modern technology in ways that will leverage our resources for the most efficient and effective investigations and prosecutions of fraud, waste and abuse in FCC missions and programs.

During the previous reporting period, our case management system ("CMS") went on-line, with all current investigations administered through the CMS. The CMS allows the AIGI to oversee and manage all pending cases by keeping abreast of major developments in each investigation, while also providing investigators with a critical tool to maintain their significant case-loads in an organized manner. Management, in conjunction with the investigators who now use the system on a daily basis, continues to work with the contractor to fine-tune the system itself to maximize efficiency.

The use of Concordance has also increased within the OIG. Concordance is a document search

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and retrieval system that aids the OIG in its expansive document reviews, allowing each investigator to search for key documents in an expedited manner. Additionally, investigators can more efficiently work on teams in the document reviews, sharing key information and maintaining organized trails of research.

Commission employees, contractors and regulatees increasingly rely upon digital media in the performance of their duties. Consequently, effective investigations require the application of sophisticated technical expertise in computer forensics, as well as state of the art equipment, in order to examine digital media in a sound forensic environment. OIG keeps pace with this constantly evolving technological environment by supporting computer forensic training for investigators and is in the process of acquiring a computer forensic specialist in the Office. In the near future, OIG plans to develop new investigative capabilities by establishing a computer forensics laboratory and hiring criminal investigators in FY 2013.

Activity During this Period

At the outset of this reporting period, 111 cases were pending. Over the last six months, 44 cases have been closed and 15 opened. As a consequence, a total of 82 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, 2012	111
New Cases	15
Cases Closed	44
Cases pending as of September 30, 2012	82

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 or prosecutions. Thus, many matters could not be considered for inclusion in this summary.

Investigations into Fraud in the Federal Universal Service Program

The bulk of the work of OIG Investigations involves investigating and supporting civil and criminal investigations/prosecutions of fraud in the FCC's federal universal service program. The AIGI and Investigations staff work routinely with other state, local and federal agencies in these matters. These coordinated investigatory and prosecutorial efforts, especially those in-

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volving the DOJ, its OIG and various US Attorneys, have resulted in many successes, including civil settlements and criminal convictions.

Most of our on-going universal service investigations are not known to the public and even some closed investigations cannot be disclosed because of sensitivities that could impact related ongoing matters. Highlighted below, are a few matters that have had public developments during the reporting period:

E-Rate Matters

Following successful E-Rate prosecutions arising from FCC OIG investigations, FCC's Enforcement Bureau initiated several suspension proceedings. On May 9, 2012, Jonathan Slaughter was suspended from participating in activities associated with, or related to, the E-Rate Program. And on July 20, 2012, FCC's Enforcement Bureau debarred Gloria Harper from participating in activities associated with, or related to, the E-Rate Program.

Investigation into Fraud in the Federal Communications Commission Telecommunications Relay Service

The FCC OIG is continuing its work with the Criminal Division of DOJ and the FBI on several investigations involving fraud on the FCC's Telecommunications Relay Service ("TRS")/Video Relay Service ("VRS") Fund program. Please see the "Audits of Telecommunications Relay Service Providers" section of this report (page 10) for a definition of the TRS/VRS program.

Although prosecutions of those indicted in November 2009 on allegations of submitting false or fraudulent claims for reimbursement for VRS were completed during the previous reporting period, sentencing remains ongoing.

During the reporting period, two additional individuals, Bridget and Jerome Bonheyo, whose indictments were reported in our Semiannual Report to Congress for the period ending March 31, 2012, and operating in conjunction with a VRS provider not previously implicated, pleaded guilty to defrauding the TRS Fund by engaging in fake marketing and outreach schemes, in addition to other methods of pumping the minutes of use for which the provider they were working for was compensated. Sentencing of these individuals is pending.

In addition to working with the Criminal Division of DOJ, OIG is also continuing its support of the Civil Division in the investigation of a Qui Tam case (federal false claims action brought, in the name of the United States by a private citizen, the relator) against AT&T, for allegedly defrauding the TRS Fund in its provision of IP Relay, another form of TRS that allows individuals with hearing disabilities to communicate with voice telephone users through an internet connection and a communications assistant. The government's complaint in intervention alleges that,

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by knowingly processing, and claiming compensation for, calls by hearing fraudsters, often residing in foreign locations (e.g., Nigerian Scam Calls), AT&T submitted false claims under the federal False Claims Act. The parties are currently awaiting court rulings that will determine future progress in the case.

OIG also continues to follow the Commission's on-going TRS reform-related work, including rate and fraud related proceedings. We note that, during this reporting period, the Commission took action to end its IP-Relay "Guest User" policy, a policy that has been used to bill for Nigerian Scam Calls.

Investigations into Fraud in Recovery Act Funded FCC Contracts

The OIG has received and continues to receive allegations of fraud, waste, abuse and misconduct in the American Recovery and Reinvestment Act of 2009 ("ARRA" or "Recovery Act") programs from a variety of sources, including the OIG Hotline, news reports, and the FCC's Office of Managing Director. Presently, the OIG has closed 22 investigations and has 13 remaining active investigations pertaining to misconduct in the Recovery Act programs. Please see the "Agency Verification of American Reinvestment and Recovery Act Funds" section of this report (page 12) for a discussion of the FCC's participation in the Recovery Act.

Examples of DTV-related allegations received and investigated by OIG include: (1) a contract was improperly awarded to a company headed by an individual with a criminal conviction; (2) submission of claims for compensation when work was not performed; (3) contracts awarded to bidders who failed to include required information or who provided inaccurate Representation and Certifications in proposal materials.

PrimeX Technology, Inc.

On August 22, 2012, the United States District Court for Arizona issued a 48 count indictment against Eric B. Jenkins, President of PrimeX Technology, Inc., including charges of wire fraud, theft of public money, false statements and transactional money laundering. PrimeX received Recovery Act funds from FCC's DTV Basic and Expert In-Home Converter Box Installation Services program. These projects called for contractors to assist or to provide enhanced assistance in the installation of analog-to-digital converter boxes in eligible households.

Jenkins was the president and owner of PrimeX Technology, Inc. (PrimeX) in Mesa, Arizona where he and his company were awarded two contracts. One contract required PrimeX to complete 10,000 basic installations in the Southwest Region for an overall contract value of \$650,000. The other contract required PrimeX to complete 1,000 expert installations in the Southeast region for an overall contract value of \$78,000. PrimeX submitted seven invoices to

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the FCC and demanded a total of \$536,510 in payment, claiming it had completed 7,594 basic installations and 550 expert installations.

All seven invoices and the supporting information were false. In fact, none of the claimed installations ever occurred. Instead, PrimeX employees would pick names from the white pages and other sources of address compilations, enter those names in non-alphabetical order in the supporting document (so as to avoid detection), and forge the signatures of the customers who had purportedly received the installations. The FCC accepted five of the invoices and remitted \$493,610 to PrimeX as payment for the claimed installations. The FCC refused to accept the other two invoices, however, after discrepancies arose. Jenkins's trial is scheduled for December 2012. OIG assisted in this investigation with the U.S. Attorney's Office in the District of Arizona and the FBI.

Internal Affairs

The Inspector General is authorized by the IG Act to investigate allegations of fraud, waste and abuse occurring within Federal Communications Commission programs and operations. Matters of possible wrongdoing are referred to the OIG in the form of allegations or complaints from a variety of sources, including FCC employees, contractors, other government agencies and the general public.

In conducting investigations during the past several years, the OIG has sought assistance from and worked jointly with other law enforcement agencies, including other OIG's, the FBI, the Federal Trade Commission ("FTC"), the Department of Homeland Security ("DHS"), the Securities and Exchange Commission ("SEC"), the Internal Revenue Service ("IRS"), National Archives and Records Administration ("NARA"), and the Recovery Accountability and Transparency Board as well as state agencies.

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

Grey Market or Counterfeit Goods Provided by FCC Contractor

The FCC Information and Technology Center ("ITC") ordered a shipment of Cisco brand computer equipment from a company in September 2011. The contract pursuant to which the equipment was ordered precluded the shipment of "grey ware" (equipment sold outside normal distribution channels by a company having no relationship with the manufacturer) and required the equipment to be covered by the manufacturer's warranty. ITC staff noticed irregularities with critical aspects of the shipment. After preliminary inquiries, Cisco indicated that much of the equipment was potentially either "grey ware" (which was clearly prohibited by the contract) or counterfeit, and ITC referred the matter to OIG. Subsequent to obtaining additional evidence

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that at least a portion of the shipment was counterfeit, IG investigators contacted Immigration and Custom Enforcement (“ICE”) agents in the Department of Homeland Security. After confirming the existence of grey market and counterfeit equipment, ICE seized the goods and ultimately issued a forfeiture order to seller. The investigation is continuing.

FCC Employee Time and Attendance

The OIG received an anonymous letter alleging that a long-time FCC employee was defrauding the government by failing to report leave. The letter stated that the FCC employee arrived late in the morning and left early in the afternoon and consistently took long lunches. OIG reviewed data from the access control system badge data and interviewed the subject employee, who admitted that he had been taking lunch breaks well in excess of the government standard break and has done so for years. The subject employee also admitted to consistently arriving later and leaving earlier than his official tour of duty hours. Within one month of receiving the allegations, OIG referred this matter to the employee’s Bureau management for action. The employee retired soon after his interview with OIG.

Field Office Employee Misuse of Government Equipment for Prohibited Activities

This investigation began as a result of a Hotline call from an FCC Regional Director expressing concern that an employee may have been misusing government equipment by visiting adult pornographic web sites with a federally-issued computer. Based on OIG interviews, review of the computer forensic evidence collected in this investigation, the FCC personal use policy and ITC property records, OIG found that the subject of this investigation violated FCC policy pertaining to personal use of FCC equipment, as well as improperly used FCC computing resources. OIG referred this case to the employee’s Bureau, Human Resources, and the Security Office. The subject employee retired shortly after the OIG investigation concluded.

Allegations of Time & Attendance Abuse: Employees Taking Long Lunches and Performing Less than a Full Day of Work

This investigation began as a result of information received from an FCC employee, regarding alleged time and attendance abuses occurring within the FCC Media Bureau. The employee stated that five employees, including him, have taken lunch periods on a regular basis that far exceed the official government standard. In addition, the employee stated that over a long period of time, the employees put in less than a full work day (arrived late, left early, or both). OIG reviewed building entry and exit (badge) data. This documented less than complete work days and a significant number of extended lunch periods. OIG investigators interviewed all those against whom allegations were made and each individual employee acknowledged some measure of culpability. OIG referred this matter back to the employees’ management for appropriate action.

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Complaint Regarding Adjudication of Application for Certification to Provide Video Relay Service

Subsequent to November 2009, when the criminal investigations into fraud in the VRS industry became overt (see further discussion in TRS section), Commission staff recognized that the rules governing certification of VRS providers were exceedingly lax and that, in recognition of the ongoing fraud perpetrated by the white label entities (non FCC-certified subcontractors providing VRS services), it would be detrimental to the VRS program to certify additional providers pursuant to those rules and subsequently, the Commission banned operations by white label TRS providers.

In May 2012, OIG Investigators followed-up on a complaint by a white label entity that its application for VRS certification was treated differently than others during 2009, and that a FCC staffer involved in the process had a conflict of interest. After researching the process and interviewing FCC staff, we found that no entity was either granted or denied certification during the time period that the complainant's application was pending. Because the applicant was treated the same as all others, OIG determined that the allegations were unfounded and closed this case without further action.

OIG Hotline

The FCC OIG maintains a Hotline to facilitate the reporting of allegations of fraud, waste, abuse, mismanagement or misconduct in Commission 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. 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.

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

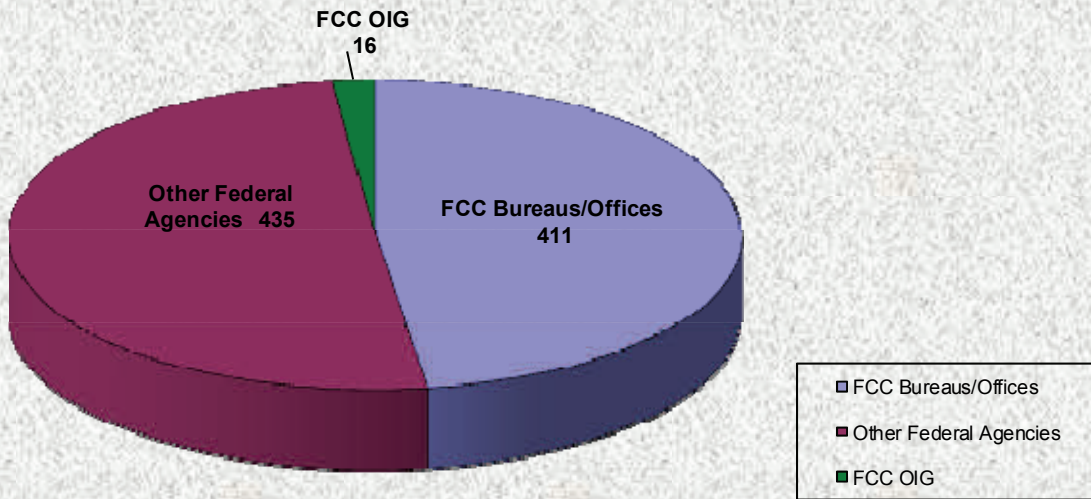
- (1) open an OIG investigation or audit;
- (2) refer the matter to FCC management for appropriate review and action; or
- (3) refer the allegation to another Federal agency, most often the Federal Trade Commission (FTC). For example, complaints about fraudulent sweepstakes are referred to FTC, the nation's

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consumer protection agency.

During the current reporting period, OIG received 862 Hotline contacts. Of these, 16 were referred to OIG Investigations for possible case openings, 411 were referred to FCC Consumer Center, and 435 were referred to other federal agencies.

**OIG Hotline Calls Record
April 1, 2012 - September 30, 2012**



REPORTING REQUIREMENTS

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

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

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

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

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

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

No significant recommendations remain outstanding.

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

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

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

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

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

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

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.

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*.

Report fraud, waste or abuse to:

Email: Hotline@FCC.gov

Call Hotline: 202 418-0473

Or

888-863-2244



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