OFFICE OF
INSPECTOR GENERAL
FEDERAL COMMUNICATIONS COMMISSION

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Audit of the Federal Communications Commission's Fiscal Year 2024 compliance with the Payment Integrity Information Act of 2019

Audit Report Number: 25-AUD-01-01
May 27, 2025

KEARNEY& COMPANY

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May 27, 2025

Honorable Fara Damelin, Inspector General
Office of Inspector General
Federal Communications Commission
45 L Street NE
Washington, D.C. 20554

Dear Ms. Damelin:

Kearney & Company, P.C. (Kearney) has conducted an audit of the Federal Communications Commission's (FCC or Commission) Fiscal Year (FY) 2024 compliance with the Payment Integrity Information Act of 2019 (PIIA). This performance audit, conducted under Contract No. GS00F031DA, was designed to meet the objectives identified in the ***Objectives*** section of this report.

Kearney conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), issued by the Government Accountability Office (GAO). The purpose of this report is to communicate the results of Kearney's performance audit and our related findings and recommendations.

Kearney appreciates the cooperation provided by FCC's personnel during the audit.

Sincerely,

Kearney & Company

Kearney & Company, P.C.
Alexandria, VA

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Executive Summary

As requested by the Office of Inspector General (OIG), Kearney & Company, P.C. (defined as "Kearney," "we," and "our" in this report) audited the Federal Communications Commission's (FCC or Commission) compliance with the Payment Integrity Information Act of 2019 (PIIA). We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of Kearney's performance audit was to evaluate FCC's compliance with PIIA, in accordance with Office of Management and Budget (OMB) Memorandum M-21-19, Appendix C to OMB Circular A-123, *Requirements for Payment Integrity Improvement*. OMB M-21-19 outlines the PIIA criteria that agencies must follow. In order for an agency to be considered compliant with PIIA, all agency programs must:

- Publish applicable payment integrity information in its Agency Financial Report (AFR) for the most recent fiscal year (FY) and post that report and any accompanying materials required by OMB on the agency's website
- Conduct a program-specific risk assessment for each program or activity that conforms with section 3352(a) Title 31 in the United States Code (U.S.C.)
- Publish improper payment (IP) and unknown payment (UP) estimates for all programs and activities identified as susceptible to significant IPs
- Publish programmatic Corrective Action Plans (CAP) for each program for which an estimate above the statutory threshold was published in the AFR (if required)
- Publish IP and UP reduction targets for each program with IP and UP estimates above the statutory threshold, demonstrate improvements to payment integrity, and develop a plan to meet the reduction targets or reach tolerable IP and UP rates
- Report a gross IP and UP rate of less than 10 percent for each program and activity for which an IP estimate was obtained and published in the AFR.

To determine compliance, we reviewed FCC's risk assessment methodology, improper payment rate (IPR) estimates, Sampling and Estimation Methodology Plans (S&EMP), CAPs, and efforts to prevent and reduce IPs. In addition, Kearney followed the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) *Guidance for Payment Integrity Information Act Compliance Reviews*. The guidance was developed to assist OIGs that are required to conduct an annual IP review under the PIIA.

The PIIA requires that FCC categorize programs with annual gross outlays over $10 million and one year old as either Phase 1 or Phase 2. Phase 1 programs are not likely to have annual IPs plus UPs exceeding the threshold of both 1.5% and $10 million of program payments made in the FY or $100 million. Phase 2 includes all programs exceeding the threshold amounts.

For Phase 1 programs, FCC must conduct a risk assessment at least once every three years. For newly developed programs, FCC must conduct a risk assessment after the first 12 months of the program, even if the 12 months do not coincide with the FY.

FCC identified three programs that meet Phase 2 criteria because of the programs' susceptibility to IPs in FY 2024: Universal Service Fund – Lifeline Program (USF-LL), Universal Service Fund – Schools and Libraries Program (USF-S&L) (commonly referred to as E-Rate), and Universal Service Fund – High-Cost Legacy Programs (USF-HC Legacy).

FCC is required to create an S&EMP and test a statistical sample of disbursements to determine the IPR for Phase 2 programs. In addition, FCC is required to establish a tolerable rate for programs deemed susceptible to significant IPs. The tolerable rate is the estimated level of IPs and UPs that an agency's senior management accepts, considering the program's risk and the effectiveness of its controls.

The IPR, UP rate, tolerable rates, and associated amounts for the three Phase 2 programs are listed in ***Table 1*** below. FCC did not identify UPs for FY 2024.

Table 1: IP and UP in FY 2024

Program Name	Outlays *($ in Millions)*	Tolerable Error Rate+	IPR	UP	Estimated IP *($ in Millions)*	Estimated UP *($ in Millions)*
USF-LL	$784.82	5.98%	5.98%	-	$46.90	-
USF-S&L	$2,456.35	1.27%	1.27%	-	$31.11	-
USF-HC Legacy	$1,835.09	4.46%	4.45%	-	$81.75	-

Source: Data tables from www.paymentaccuracy.gov
+ FCC provided the tolerable rates for USF-LL, USF-S&L, and USF-HC Legacy.

Kearney's audit concluded that FCC was compliant with respect to 10 Phase 1 programs and one Phase 2 program. However, FCC was non-compliant with PIIA overall because for two of the 13 assessed FCC programs (the USF-LL and the USF-HC Legacy programs), FCC complied with nine of the 10 required PIIA criteria. As described in more detail below, FCC did not demonstrate improvements to payment integrity or reach tolerable IP and UP rates for either of these programs and therefore did not meet one of the required PIIA criteria for each.

Non-Compliance Findings

FCC's USF-LL program was non-compliant with PIIA for FY 2024 requirement5b, *Demonstrated Improvements to Payment Integrity or Reached a Tolerable IP and UP Rate*. Specifically, the USF-LL program's IPR increased from 2.18% in FY 2023 to 5.98% in FY 2024, demonstrating a 3.80% increase. The program was unable to achieve its set reduction target of 2.10% and increased the FY 2025 reduction target to 4.70%. As a result, the USF-LL program was non-compliant with the PIIA criterion that requires agencies to demonstrate payment integrity improvements each year.

FCC's USF-HC Legacy program was also non-compliant with PIIA for FY 2024 requirement 5b, *Demonstrated Improvements to Payment Integrity or Reached a Tolerable IP and UP Rate*. Specifically, the IPR for the USF-HC Legacy program increased from 2.88% in FY 2023 to 4.45% in FY 2024, which is a 1.57% increase. The program did not achieve its set reduction target for FY 2024 of 2.80% and increased its reduction target to 3.60% for the upcoming FY 2025 reporting cycle. As a result, the USF-HC Legacy program was non-compliant with the PIIA criterion that requires agencies to demonstrate payment integrity improvements each year.

Recommendations for Further Improvement

FCC should improve processes related to compiling and reporting its IP information in the OMB data call. While FCC developed a policy document to identify IPs related to FCC's Affordable Connectivity Program (ACP) on a monthly cadence, the policy was not finalized or implemented until September 2024, which was too late to effect IP reporting for FY 2024.

In addition, the Universal Service Administrative Company (USAC) included duplicate IPs from June 2024 through August 2024 in its submission to FCC. This resulted in ACP IP amounts being overstated by $890,000. By overstating IPs, the information inaccurately informs stakeholders that the amount of IPs are higher than they are, which could cause a lack of public trust in a Federal program.

In addition, FCC excluded IP amounts pertaining to "Overpayment Amounts Recovered Through Payment Recapture Audits" for the USF – Rural Health Care (RHC) and USF-HC Legacy programs. As a result, FCC underreported USF-RHC and USF-HC Legacy IP amounts by $1.14 million. By understating IPs, the information inaccurately informs stakeholders that the amount of IPs are lower than they are, which may suggest to stakeholders that the related programs are stronger in terms of program integrity than is supported by the data.

Moreover, FCC incorrectly reported the Aging of Outstanding Overpayments Identified in the Payment Recapture Audit Programs in its paymentaccuracy.gov (https://paymentaccuracy.gov/) data call submission. Misstating the amount of the IP could lead to misinformed decision-making and incorrect assessments of the program's financial integrity. The information was misstated in the following manner:

- The recovery audit amount outstanding was overreported by $19.45 million
- The recovery audit amount outstanding from zero to six months was underreported by $1.90 million
- The recovery audit amount outstanding from six months to one year was overreported by $21.35 million
- The recovery audit amount outstanding over one year was overreported by $60.63 million.

PIIA Improvements Demonstrated in FY 2024 – Closure of Prior Year Recommendations

Kearney also identified progress made by FCC in addressing prior year's (PY) PIIA findings and recommendations. Specifically, FCC's USF-S&L program made improvements toward the reduction of IPs and UPs during FY 2024. Specifically, the program reduced its IPR from 1.59% in FY 2023 to 1.27% in FY 2024, which exceeded its reduction target of 1.50% that was established during FY 2023. In addition, the IP integrity deficiencies that caused previous year IPs decreased in FY 2024. As a result of these improvements, the USF-S&L program's IPR is below the statutory threshold, and it will return to a Phase 1 program in FY 2025. Consequently, PY Recommendations #1 and #2, which focused on improvement toward USF-S&L payment integrity and are noted in ***Appendix D – Status of Prior-Year (PY) Audit Recommendations***, were closed.

In addition, to address a PY finding, FCC implemented Policies and Procedures (P&P) for its Telecommunications Relay Service (TRS) Program that identify the interdependent relationships between FCC, the TRS Administrator, and TRS Providers. As a result, PY Recommendation #3, noted in ***Appendix D – Status of Prior-Year (PY) Audit Recommendations***, was closed.

Table 2 below shows each of FCC's 13 programs for which PIIA compliance was required, as well as the status of each program's compliance with the PIIA criteria. As demonstrated below, Kearney's audit determined that FCC had 11 programs (10 Phase 1and one Phase 2) that were compliant with all PIIA criteria, and two Phase 2 programs that were each non-compliant with one PIIA criteria.

Table 2: PIIA Compliance Reporting Table[1]

Criteria No.	Criteria	FCC COVID-19 Telehealth	FCC Operating Expenses	SCRP	ECF	ACP	ACP Outreach Grants	TRS	USF-HC Modernized[2]	USF-HC Legacy[2]	USF-LL	USF-RHC	USF- S&L	USF Administrative Costs
1a	Published Payment Integrity Information with the Annual Financial Statement	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
1b	Posted the Annual Financial Statement and Accompanying Materials on the Agency Website	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2a	Conducted IP Risk Assessment for Each Program with Annual Outlays Greater Than $10 Million	Not applicable (N/A)3	N/A3	N/A3	N/A3	N/A3	N/A3	N/A3	N/A2	N/A2	N/A2	N/A3	N/A2	N/A3
2b	Adequately Concluded Whether Each Program is Likely to Make IPs and UPs Above or Below the Statutory Threshold	N/A3	N/A3	N/A3	N/A3	N/A3	N/A3	N/A3	N/A2	N/A2	N/A2	N/A3	N/A2	N/A3
3	Published IP and	N/A1	N/A1	N/A1	N/A1	N/A1	N/A1	N/A1	Yes	Yes	Yes	N/A1	Yes	N/A1

Criteria No.	Criteria	FCC COVID-19 Telehealth	FCC Operating Expenses	SCRP	ECF	ACP	ACP Outreach Grants	TRS	USF-HC Modernized[2]	USF-HC Legacy[2]	USF-LL	USF-RHC	USF- S&L	USF Administrative Costs
	UP Estimates for Each Program Susceptible to Significant IPs and UPs													
4	Published CAP for Each Program for Which an Estimate Above the Statutory Threshold was Published	N/A1	N/A1	N/A1	N/A1	N/A1	N/A1	N/A1	Yes	Yes	Yes	N/A1	Yes	N/A1
5a	Published an IP and UP Reduction Target for Each Program for Which an Estimate Above the Statutory Threshold was Published	N/A1	N/A1	N/A1	N/A1	N/A1	N/A1	N/A1	Yes	Yes	Yes	N/A1	Yes	N/A1
5b	Demonstrated Improvements to Payment Integrity or Reached a Tolerable IP and UP Rate	N/A1	N/A1	N/A1	N/A1	N/A1	N/A1	N/A1	Yes	**No**	**No**[3]	N/A1	Yes	N/A1
5c	Developed a Plan to Meet the IP and UP Reduction Target	N/A1	N/A1	N/A1	N/A1	N/A1	N/A1	N/A1	Yes	Yes	Yes	N/A1	Yes	N/A1
6	Reported an IP and UP Estimate of Less Than 10% for Each	N/A1	N/A1	N/A1	N/A1	N/A1	N/A1	N/A1	Yes	Yes	Yes	N/A1	Yes	N/A1

Criteria No.	Criteria	FCC COVID-19 Telehealth	FCC Operating Expenses	SCRP	ECF	ACP	ACP Outreach Grants	TRS	USF-HC Modernized[2]	USF-HC Legacy[2]	USF-LL	USF-RHC	USF- S&L	USF Administrative Costs
	Program for Which an Estimate was Published													

N/A1 – The agency program is in Phase 1 and, therefore, per OMB guidance, was not at risk of significant IPs and UPs
N/A2 – The agency program is in Phase 2 because it was above the statutory threshold and, therefore, per OMB guidance was not required to conduct a risk assessment
N/A3 – The agency program was not required to conduct a risk assessment this year and, therefore, per CIGIE guidance, this step is N/A

1- See the "FCC Programs" section below for a comprehensive list of all FCC programs, including those that were not assessed during the PIIA Performance Audit, due to not having 12 months of data or not meeting the $10 million gross outlays threshold
2- USAC reevaluated USF-HC in FY 2021. As part of the reevaluation, USAC analyzed the USF-HC Legacy and USF-HC Modernized funds separately. Therefore, we have listed them separately for the purpose of reporting compliance with PIIA
3- Although the FY 2023 report noted the third consecutive year of non-compliance with the LL program, FCC remediated the findings related to that non-compliance finding. The issue for FY 2024 is unrelated to the PY non-compliance findings. Therefore, Kearney determined that the non-compliance for FY 24 will be the first year of non-compliance.

Objectives

As requested by FCC OIG, Kearney audited FCC to determine compliance with PIIA. We conducted this performance audit in accordance with GAGAS.

The objective of Kearney's performance audit was to evaluate FCC's compliance with PIIA, in accordance with the OMB Memorandum M-21-19, Appendix C to OMB Circular A-123, *Requirements for Payment Integrity Improvement*. OMB M-21-19 outlines the PIIA criteria that agencies must follow. Specifically, we reviewed FCC's risk assessment methodology, IPR estimates, S&EMP, CAPs, and efforts to prevent and reduce IPs. In addition, Kearney followed the CIGIE's *Guidance for Payment Integrity Information Act Compliance Reviews*. The guidance was developed to assist OIGs that are required to conduct an annual IP review under the PIIA.

Please see ***Appendix A – Scope and Methodology of the Audit*** of this report for the scope and methodology of the audit.

Background

Enactment of PIIA

On March 2, 2020, PIIA became law. PIIA (Public Law [PL] 116-117) was enacted to improve efforts to identify and reduce Government-wide IPs. Agencies are required to identify and review all programs and activities they administer that may be susceptible to significant IPs based on guidance provided by OMB. Payment integrity information is published with the agency's annual financial statement in accordance with payment integrity guidance in OMB Circular A-123, Appendix C. The agency must also publish any applicable payment integrity information required in the accompanying materials to the annual financial statement in accordance with applicable guidance. The most common accompanying materials to the annual financial statement are the payment integrity information published on paymentaccuracy.gov. Agencies' Inspectors General (IG) are to review payment integrity reporting for compliance and issue an annual report.

FCC Programs

Agencies are required under PIIA guidance to assess programs that are over a year old and have reported gross outlays greater than $10 million. The following 13 FCC programs met the outlay and age thresholds requiring a PIIA compliance assessment to be performed in FY 2024:

- <u>COVID-19 Telehealth Program:</u> A $449.95 million FCC program that was established to fulfill its responsibilities under the Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) to provide support efforts of health care providers to address COVID-19 by providing telecommunications services, information services, and devices necessary to enable the provision of telehealth services during the pendency of the

COVID-19 pandemic.[1] For FY 2024, there were $35.6 million in disbursements

- FCC Operating Expenses: FCC funds for conducting payroll and non-payroll operating activities, including auction refunds. For FY 2024, there were $573.6 million in disbursements
- TRS: FCC fund administered by Rolka Loube, LLC (RL). The TRS Fund compensates TRS providers for the reasonable costs of providing interstate telephone transmission services that enable a person with a hearing or speech disability to communicate with a person without hearing or speech disabilities.[2] For FY 2024, there were $1.4 billion in disbursements
- The USF-HC Modernized Programs: The USF-HC Modernized Programs provide funding that helps to subsidize the delivery of voice and broadband service across rural America. For FY 2024, there were $2.6 billion in disbursements
- USF-HC Legacy Programs: The USF-HC Legacy Programs provide funding to telecommunication carriers to provide service in rural areas where the market alone cannot support the substantial cost of deploying network infrastructure and providing connectivity. For FY 2024, there were $1.9 billion in disbursements
- USF-LL: USF-LL provides a discount on broadband and/or phone service for qualifying low-income consumers to ensure all Americans have the opportunities and security that these services bring. For FY 2024, there were $852.2 million in disbursements
- USF-RHC: USF-RHC provides funding to eligible health care providers for telecommunications and broadband services necessary for the provision of health care.[3] For FY 2024, there were $557.3 million in disbursements
- USF-S&L: USF-S&L, commonly known as the E-rate program, helps schools and libraries to obtain affordable broadband services. For FY 2024, there were $2.582 billion in disbursements[4]
- USF Administrative Costs: USF Administrative Costs comprise funding that is provided to USAC required to carry out USAC's responsibilities for administering FCC's USF programs. USF Administrative Cost disbursed $287.7 million for FY 2024
- SCRP: SCRP is a $1.9 billion FCC program that reimburses eligible providers of advanced communications services for costs reasonably incurred to remove, replace, and dispose of communications equipment and services in their networks that pose national security risks.[5] In FY 2024, the program disbursed $625 million in funding
- ECF: The ECF Program, which ended on June 30, 2024, was a $7.17 billion FCC program that assisted in providing internet access and devices to students, school staff, and library patrons to allow for remote learning during the COVID-19 emergency period.[6] In FY 2024, the program disbursed $1 billion in funding
- ACP: ACP, which ended on June 1, 2024, was a $14.2 billion FCC program that provided a discount of up to $30 per month for internet service and up to $75 per month for homes on qualifying Tribal lands. Additionally, the program provided one-time

[1] https://www.usac.org/about/covid-19-telehealth-program/
[2] https://www.fcc.gov/telecommunications-relay-service-trs-general-management-and-oversight
[3] https://www.fcc.gov/general/rural-health-care-program
[4] https://www.fcc.gov/general/e-rate-schools-libraries-usf-program
[5] https://www.fcc.gov/supplychain/reimbursement
[6] https://www.fcc.gov/emergency-connectivity-fund

discounts for the purchase of computers and tablets.[7] In FY 2024, the program disbursed $6 billion in funding

- ACP Outreach Grants: An FCC program, which ended on June 1, 2024, that provided funding support up to $100 million for eligible partners in their outreach efforts to increase the awareness and reach of the ACP.[8] In FY 2024, the program disbursed $16.6 million in funding.

Programs that are less than a year old and/or have gross outlays of less than $10 million for the FY under review are not required to be assessed for compliance with PIIA guidance. The following five programs did not meet the outlay and age thresholds, and as a result, were not assessed during FY 2024 to determine compliance with PIIA criteria:

- Broadband Federal Mapping: A $10 million FCC program that maps broadband access in the United States.[9] In FY 2024, the program disbursed $247 thousand in funding
- Connected Care Pilot Program: An FCC program that provides up to $100 million from the USF over a three-year period to support the provision of connected care services. This pilot program provides funding to cover 85% of costs towards broadband connectivity and network equipment, in addition to information services.[10] In FY 2024, the program disbursed $ 6.6 million in funding
- North American Numbering Plan: An FCC program that provides the basic numbering scheme that permits interoperable telecommunications services within the United States, Canada, Bermuda, and the Caribbean.[11] For FY 2024, there were $7.5 million in disbursements
- Broadband Deployment Locations Map: An FCC program that develops a centralized, authoritative source of information on funding that is made available by the Federal Government for broadband infrastructure development within the United States.[12] For FY 2024, there were $703,000 in disbursements
- TV Broadcaster Relocation Fund (TVBRF): The $2.75 billion TVBRF was formed to fund TV broadcasters, Low Power Television Stations, television translators, Frequency Modulation (FM) stations, and Multichannel Video Programming Distributors (MVPD) meet the federally mandated requirement to relocate to different spectrum bands.[13] In FY 24, the program disbursed $4.28 million in funding.

Conclusion

Based on Kearney's audit of the PIIA information contained in FCC FY 2024 AFR, accompanying materials, and supporting documentation, we concluded that 11 of the 13 programs were compliant with all PIIA criteria.

[7] https://www.fcc.gov/acp
[8] https://www.fcc.gov/acp-grants
[9] https://www.fcc.gov/document/national-broadband-map-fact-sheet
[10] https://www.fcc.gov/wireline-competition
[11] https://www.fcc.gov/north-american-numbering-plan-general-management-and-oversight
[12] 47 U.S. Code § 1704-Broadband Deployment Locations Map
[13] https://www.fcc.gov/about-fcc/fcc-initiatives/incentive-auctions/reimbursement

However, two programs, USF-LL and USF-HC Legacy, were non-compliant because improvements toward payment integrity were not demonstrated in FY 2024. IPs leave less available funding for eligible providers and lead to a waste of program resources that may be difficult to recover.

Kearney also noted areas for improvement surrounding FCC's IP reporting in the ACP, USF-RHC, USF-HC, USF-LL, and USF-S&L programs. The recommendations for improvement originated from a failure of controls associated with FCC processes to compile and report overpayments and underpayments from recovery and recapture audits. Improper reporting can lead to incorrect assessments of the program's financial integrity.

Kearney highlighted PIIA improvements made by FCC in FY 2024 and the related closure of three PY PIIA recommendations in ***Appendix D*** – STATUS OF PRIOR-YEAR (PY) AUDIT RECOMMENDATIONS.

Kearney issued three findings and offered eight recommendations to improve FCC's PIIA reporting. If implemented, the recommendations will aid in FCC's compliance with PIIA and strengthen controls for payment integrity in two of its Phase 2 programs.

Findings

Finding #1 – USF-LL Program is Non-Compliant with the Requirements of PIIA

Condition: FCC did not comply with PIIA guidance provided by the OMB M-21-19 Appendix C, Section VI.A Criteria 5b. The IPR for the USF-LL Program increased from 2.18% in FY 2023 to 5.98% in FY 2024, which is a 3.8% increase. FCC reported $46.9 million of IPs in FY 2024 for the USF-LL program, which was an increase of $36.9 million since last year. Additionally, of the reported $46.9 million IP amounts for FY 2024, $37.8 million (or 80%) were identified by FCC's root cause analysis as having a root cause that is within the agency's control. Specifically, the errors were caused by inaccurate determinations related to manual eligibility documentation reviews performed by USAC's Business Process Owner (BPO). This was an increase from the $10.4 million in errors related to manual eligibility determinations reported by FCC in FY 2023.

In addition, FCC did not achieve the FY 2024 reduction target of 2.10% for the USF-LL Program. Further, FCC increased the reduction target to 4.70% for the upcoming testing cycle, which will occur in FY 2025. The rise in the reduction target indicates that the agency does not anticipate that the planned actions for the coming year will result in a reduction of the IPR under the statutory threshold.

The increases in the IPR for FY 2024, the repeat of root causes and errors previously identified in FY 2023, and the inability to reach the reduction target set by FCC are evidence that FCC has not demonstrated progress toward improvements in payment integrity for the USF-LL Program.

Cause: FCC and its administrator, USAC, have not effectively implemented procedures to reduce IPs and UPs below the statutory threshold. USAC implemented mandatory bi-annual training for its BPO related to the manual review process; however, the training implementation was not timely. Training to enhance the manual review process did not occur until July 2024, 10 months into the FY. Additionally, USAC did not perform a cost-benefit analysis to determine if additional methods for reducing the IPR could be effectively implemented. As a result, errors associated with inadequate eligibility documentation for the IP samples remained high.

Criteria: OMB M-21-19 Appendix C, Section VI.A Criteria 5b, *Transmittal of Appendix C* to OMB Circular A-123, *Requirements for Payment Integrity Improvement*, dated March 5, 2021, states:

> "If the program reported an IP and UP estimate above the statutory threshold in the prior year and the CY, and the program has not yet achieved its tolerable IP and UP rate, the program is responsible for demonstrating improvements. The program should ensure that it undertakes new actions during the year to improve their payment integrity."

OMB M-21-19 Appendix C, Section II C1, *Transmittal of Appendix C* to OMB Circular A-123, *Requirements for Payment Integrity Improvement*, dated March 5, 2021, states:

> "Programs are considered to be above the statutory threshold if they are reporting an annual IP and UP estimate that is either above $10,000,000 and 1.5% of the program's total annual outlays or above $100,000,000 regardless of the associated percentage of the program's total annual outlays that the estimated IP and UP amount represents."

OMB M-21-19 Appendix C, Section VI C, *Transmittal of Appendix C* to OMB Circular A-123, *Requirements for Payment Integrity Improvement*, dated March 5, 2021, states:

> "...for each agency program reporting an estimate above the statutory threshold, the OIG must include recommendation(s) for action(s) to further improve prevention and reduction of IPs and UPs within the program. The OIG will engage with the program and/or other part of the agency regarding the specific corrective action recommendations to ensure appropriate and effective corrective action recommendations are made."

Effect: USAC erroneously disbursed $46.9 million, including $37.8 million to applicants who were not eligible for USF-LL funding. Without a reliable eligibility verification process, ineligible individuals or households received benefits, diverting funds away from those who genuinely need the assistance and leading to a waste of program resources.

Recommendations: Kearney recommends that FCC take the following actions to address IP risk:

1. Direct USAC to perform a cost-benefit analysis to identify and implement additional approaches for reducing the USF-LL IPR below the reporting threshold, including, but not limited to:
    a. Implementing artificial intelligence (AI) and related technology tools to perform data analysis in order to identify risks of IPs.
    b. Increasing the effectiveness of employee training.
    c. Adding additional layers of review.
    d. Providing ongoing coaching to educate staff on the USF-LL program requirements, including documentation requirements relating to eligibility. [Repeat]

Management's Response: See ***Appendix B – Management's Views on Conclusions and Findings***.

Finding #2 – FCC USF-HC Legacy Program is Non-Compliant with the Requirements of PIIA

Condition: FCC did not comply with PIIA guidance provided by the OMB M-21-19 Appendix C, Section VI.A Criteria 5b. Specifically, FCC did not demonstrate improvements toward payment integrity for the USF-HC Legacy program in FY 2024. The IPR for the USF-HC Legacy program increased from 2.88% in FY 2023 to 4.45% in FY 2024, which is a 1.57% increase. Each year, USAC's Audit and Assurance Division (AAD) requests documentation, such as continuing property records and depreciations/amortization schedules, from carriers to test whether USF-HC Legacy support is used for its intended purpose. During AAD's most recent review of USF-HC Legacy support disbursements, the depreciation and asset information could not be validated because the documentation was either incorrect or not provided. Similar to the PY's audit, incorrect and missing documentation are still significant root causes of the IPs for FY 2024.

In addition, FCC's reduction target of 2.80% for FY 2024 was not achieved. FCC increased the reduction target to 3.60% for the upcoming testing cycle, which will occur in FY 2025.

FCC has not demonstrated progress toward improvements in payment integrity as reflected in the increase in the IPR for FY 2024 and the inability to reach the reduction target.

Causes: Under USF-HC Legacy program regulations, carriers receive support to recover a portion of their costs. As allowed by USF-HC Legacy program regulations, USAC disburses support based on carrier provided information without first obtaining and reviewing underlying documentation that would verify that the support is used for its intended USF-HC Legacy purpose. Subsequently to disbursing support, AAD audits the financial information provided by the carriers to determine whether the information provided by the carrier is supported by the carrier's records. Of the reported $81.75 million IP amounts for FY 2024, FCC attributed $42.60 million (or 52%) to the carrier failing to provide documentation that reflected the assets and depreciation methods tested by the AAD Team. Carriers providing incorrect documentation including erroneous asset information is the same root cause as the PY.

Additionally, FCC attributed $37.66 million of the reported IP amounts (or 46%) to the failure of the carrier to submit documentation relating to assets, which is a new root cause for FY 2024.

USAC informed us that it is developing a Special Compliance Review (SCR) layer where a sample of carriers will be selected for further testing and analysis in an effort to reduce the IPR for causes related to inadequate or lack of documentation. However, the SCR layer development was not started until FY 2025.

Criteria: OMB M-21-19 Appendix C, Section VI.A Criteria 5b, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, dated March 5, 2021, states:

> "If the program reported an IP and UP estimate above the statutory threshold in the prior

> year and the CY, and the program has not yet achieved its tolerable IP and UP rate, the program is responsible for demonstrating improvements. The program should ensure that it undertakes new actions during the year to improve their payment integrity."

OMB M-21-19 Appendix C, Section VI.A Criteria 5b, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, dated March 5, 2021, states: "If a program cannot demonstrate that it took new actions during the year to improve payment integrity, the program should be prepared to demonstrate that it has achieved their tolerable IP and UP rate and are taking actions to maintain the rate."

OMB M-21-19 Appendix C, Section II C1, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, dated March 5, 2021, states:

> "Programs are considered to be above the statutory threshold if they are reporting an annual IP and UP estimate that is either above $10,000,000 and 1.5% of the program's total annual outlays or above $100,000,000 regardless of the associated percentage of the program's total annual outlays that the estimated IP and UP amount represents."

OMB M-21-19 Appendix C, Section VI C, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, dated March 5, 2021, states:

> "...for each agency program reporting an estimate above the statutory threshold, the OIG must include recommendation(s) for action(s) to further improve prevention and reduction of IPs and UPs within the program. The OIG will engage with the program and/or other part of the agency regarding the specific corrective action recommendations to ensure appropriate and effective corrective action recommendations are made…"

Effect: USAC erroneously disbursed $81.75 million payments for USF-HC Legacy funding to carriers, including $80.26 million to carriers who were found to have submitted financial information that could not be validated. IPs leave less available funding for eligible providers and lead to a waste of program resources that may be difficult to recover.

Recommendations: Kearney recommends that FCC take the following actions to address IP risk:

2. Direct USAC to conduct an in-depth root cause analysis for IPs related to missing or insufficient documentation used to support the carriers' submission of continuing property records and depreciation/amortization information for USF-HC Legacy. USAC should continue to engage with carriers to understand systemic issues contributing to these types of IPs. USAC should develop targeted corrective actions based on the findings. [New]
3. Enhance oversight of the USF-HC Legacy program by increasing the frequency of monitoring and reviewing carrier-reported data. For example, implement interim random sampling of payments or use AI to identify and detect patterns of non-compliance. [New]
4. Develop a phased reduction target plan for the USF-HC Legacy program with clear

milestones and accountability measures to ensure it is realistic and achievable based on past performance and current challenges. [New]

Management's Response: See ***Appendix B – Management's Views on Conclusions and Findings***.

Finding #3 – FCC IP Reporting Could Use Improvement

Conditions: In FCC's Data call submission for FY 2024 IP reporting, USAC mistakenly double-counted IPs from June through August 2024. This error was not discovered until after the allowable revision period for the OMB data call and thus was included in the FY 2024 IP reporting.

In addition, FCC inadvertently excluded IP amounts pertaining to "Overpayment Amounts Recovered Through Payment Recapture Audits" for the USF-RHC and USF-HC Legacy programs in its FY 2024 data call submission.

Further, FCC incorrectly reported the "Recovery Audit Amount Outstanding" for the USF-RHC, USF-HC Legacy, USF-S&L, and USF-LL programs in its FY 2024 data call submission.

Causes: USAC did not implement a policy to adequately identify IPs on a monthly basis during FY 2024. USAC finalized its policy in September 2024.

In addition, FCC did not implement adequate validation checks to ensure that the IP amounts and outstanding recovery audit amounts were accurate prior to submitting the information for the paymentaccuracy.gov data call.

Criteria: OMB-M-21-19, Appendix C, section VI Compliance, subsection 1a, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, dated March 5, 2021, states:

> "In addition, the agency must publish any applicable payment integrity information required in the accompanying materials to the annual financial statement in accordance with applicable guidance. The most common accompanying materials to the annual financial statement are the payment integrity information published on paymentaccuracy.gov. This information is provided by the agency to OMB through the Annual Data Call and is then subsequently published on paymentaccuracy.gov."

OMB 21-19, subsection 4, *Recommendations for Improvement vs. Recommendations for Compliance*, states:

> "A recommendation for improvement should be considered any time an OIG identifies an action that if taken would improve the program as it relates to a specific evaluation criterion, however, overall the OIG determines that the program itself is compliant with the criterion. For example, an OIG may identify a way for one of the mitigation strategies within the corrective action plan of a program to be implemented more effectively. This factor, in isolation, likely does not constitute a noncompliance determination for the Published Corrective Action Plans criterion, but the OIG should still include this recommended action in their final report so the program can improve the effectiveness of corrective action plan implementation."

Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (Green Book), section on *Oversight for the Internal Control System*, states:

> "The oversight body's responsibilities for the entity's internal control system include the following:
>
> - Control Environment - Establish integrity and ethical values, establish oversight structure, develop expectations of competence, and maintain accountability to all members of the oversight body and key stakeholders.
> - Risk Assessment - Oversee management's assessment of risks to the achievement of objectives, including the potential impact of significant changes, fraud, and management override of internal control.
> - Control Activities - Provide oversight to management in the development and performance of control activities.
> - Information and Communication - Analyze and discuss information relating to the entity's achievement of objectives.
> - Monitoring - Scrutinize the nature and scope of management's monitoring activities as well as management's evaluation and remediation of identified deficiencies."

GAO Green Book, section *Oversight for the Internal Control System*, states: "3.11 Management documents internal control to meet operational needs. Documentation of controls, including changes to controls, is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored and evaluated by the entity."

Effect: Misstating the amount of the IP could lead to misinformed decision-making and incorrect assessments of the program's financial integrity. Additionally, providing inaccurate information to Congress and OMB impedes transparency and accountability. Specifically, FCC:

1. Overreported ACP IP amounts by $890,000 in its submission that was published to paymentaccuracy.gov
2. Underreported USF-RHC and USF-HC Legacy program IP amounts by $1.14 million in its submission that was published to paymentaccuracy.gov
3. Overreported the recovery audit amount outstanding by $19.45 million, underreported the recovery audit amount outstanding from zero to six months by $1.90 million, overreported the recovery audit amount outstanding six months to one year by $21.35 million, and overreported the recovery audit amount outstanding over one year by $60.63 million.

Recommendations: Kearney recommends that FCC take the following actions:

5. Ensure that the P&Ps that define how to identify, quantify, and report IPs that result from downward revisions in the OMB Annual Data Call are followed. [*Repeat*]
6. Implement a more rigorous internal review process for IP reporting to include performing

quarterly validation reviews to detect and prevent errors in identified IP amounts before reports are finalized. Further, all quarterly validation reports should be reconciled against the final annual report to identify and resolve discrepancies prior to the data call submission. [New]

7. Introduce a secondary review or correction window between FCC and USAC before finalizing reports for the OMB data call. [*New*]
8. Revise the outstanding categories in the FY 2025 data call submission to reflect the correct recovery audit amounts outstanding. [New]

Management's Response: See ***Appendix B – Management's Views on Conclusions and Findings***.

Appendix A – Scope and Methodology of the Audit

Scope and Limitations

The Payment Integrity Information Act of 2019 (PIIA) requires the Office of Inspector General (OIG) to provide an annual report of the Federal Communications Commission's (FCC or Commission) compliance with improper payment (IP) requirements. In accordance with the PIIA requirement, an external audit firm, Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report), acting on behalf of OIG, conducted an audit to determine whether FCC complied with PIIA for Fiscal Year (FY) 2024. As part of this objective, we also evaluated FCC's efforts to prevent and reduce IPs.

Kearney conducted this audit from November 2024 to March 2025. The scope of this audit was FCC's FY 2024 IP reporting process. Kearney's performance audit engagement was conducted in accordance with the performance audit standards established by Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we obtain reasonable assurance that evidence is sufficient and appropriate to support our findings and conclusions in relation to the audit objectives. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective and, accordingly, did not experience any scope limitations throughout the course of the audit.

Methodology and Work Performed

To obtain background information, Kearney researched and reviewed legislative requirements related to IPs, Office of Management and Budget (OMB) guidance, the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) *Guidance for Payment Integrity Information Act Compliance Reviews*, and prior OIG and Government Accountability Office (GAO) audit reports, as applicable. We designed the audit to obtain insight into FCC's current processes, procedures, and organizational structure regarding compliance with IP requirements. To expedite the audit process, Kearney leveraged the results of our FY 2024 audit of FCC's financial statements to confirm our understanding of the nature and profile of FCC operations, regulatory requirements, and supporting information systems and controls.

To determine compliance with PIIA, Kearney reviewed FCC's FY 2024 Agency Financial Report (AFR) and conducted the following:

- Performed virtual walkthroughs and interviews with FCC; the Universal Service Administrative Company (USAC); Rolka Loube, LLC (RL); and Welch LLP personnel to gain an understanding of the controls for payment integrity, PIIA risk assessments, and processes for reporting results in the FY 2024 AFR (Appendix 3, *Payment Integrity Information Act Reporting*) and accompanying materials
- Reviewed the risk assessments implemented by FCC and its components, along with applicable supporting documentation to corroborate the results reported in the accompanying materials to the FY 2024 AFR
- Reviewed and validated documentation related to the Sample and Estimation

Methodology Plan, IP estimates, and unknown payment (UP) estimates
- Reviewed and validated FCC's payment recapture audit program and amounts identified outside of recapture audits
- Reviewed Corrective Action Plans (CAP) and supporting documentation to corroborate information reported in the FY 2024 AFR (Appendix 3, *Payment Integrity Information Act Reporting*) and accompanying materials
- Reviewed documentation related to CAPs implemented as a result of findings noted in the FY 2019 Improper Payment Elimination and Recovery Improvement Act of 2012 (IPERIA) Compliance Report and the FYs 2020, 2021, 2022, and 2023 PIIA Compliance Reports
- Reviewed tolerable error rates published by Phase 2 programs.

Work Related to Internal Controls

FCC management is responsible for the design, implementation, and operating effectiveness of internal controls to identify and prevent IPs in its programs and activities. While planning and performing our audit, Kearney considered several factors, including the subject matter of the project, to determine whether internal control was significant to the audit objectives. We determined that internal control principles related to designing, implementing, and monitoring activities were significant for this audit.

Kearney assessed whether internal controls are properly designed and implemented as they relate to payment integrity. We determined the operating effectiveness by gathering information through walkthroughs, inspecting documents, and re-performing certain procedures. Kearney's consideration of internal control was for the limited purpose described in the paragraph above and was not designed to identify all deficiencies in internal control. Therefore, all internal control deficiencies may not be disclosed. In addition, this report is meant to define our internal control procedures and the results of testing and not to provide an opinion on the effectiveness of FCC's internal control.

Kearney assessed the reliability of data by conducting walkthroughs with FCC and component entities and reconciling data received to supporting documentation. We determined that data was sufficiently reliable for the purposes of determining compliance with the objectives of the audit.

APPENDIX B – MANAGEMENT'S VIEWS ON CONCLUSIONS AND FINDINGS

Federal Communications Commission
Office of the Managing Director
Washington, D.C. 20554

To: Fara Damelin, Inspector General, FCC

From: Mark Stephens, Managing Director, FCC

Date: May 19, 2025

Subject: Management's Response to Independent Auditor's Report on the Federal Communications Commission's Compliance with the Payment Integrity Information Act of 2019 (PIIA) Reporting for Fiscal Year (FY) 2024

In response to the FY 2024 Draft PIIA Audit Report, the Federal Communications Commission (FCC or Commission) provides the following response below:

Report Overall

Before discussing its specific findings and recommendations, we would like to highlight the FY 24 PIIA improvements that are noted in the report. Specifically, the Commission's Schools and Libraries program (S&L program) (also known as the E-Rate program), reduced its improper payment rate (IPR) to 1.27% in FY 24, exceeding the reduction target of 1.5% that was established in FY 23. In addition, the deficiencies that caused previous year (PY) improper payments decreased in FY 24. As a result of these improvements, the S&L program's IPR is now below the statutory threshold, and will return to a Phase 1 program in FY 25.

The Commission also closed out two PY recommendations in the S&L program, one PY recommendation in the Telecommunications Relay Services (TRS) program, and nine recommendations in the Affordable Connectivity Program (ACP), which had a collateral effect on reducing program integrity risks in the Lifeline program (USF – LL).

Finding 1: USF-LL Program is Non-Compliant with the Requirements of PIIA

We generally concur with the finding but have concerns with the scope of the issue and factual conclusions. While additional approaches for further reducing the IPR are warranted, many of the report's recommendations have already been implemented by the Commission or are currently in-progress. As such, we will continue to direct the Universal Service Administrative

Company (USAC) to be strategic in identifying areas for improvement and performing cost-benefit analysis in FY 25.

With respect to its reasoning, the report states that 80% of the error rate stemmed from inaccurate determinations related to manual eligibility documentation reviews performed by USAC's Business Process Owner (BPO). In fact, only 50.2% (3% of the 5.98% IP rate) was associated with manual review decisions by USAC's BPO. A technical issue resulting in documentation being unavailable for the audit (1%) (a unique, one-time event) and opt-out state determinations (1.8%) make up the remaining IPR. Therefore, the 80% figure stated in the report is simply unsupported by the evidence.

More importantly, while recognizing that the Commission and USAC will continue their work to reduce improper payments and unknown payments below the statutory threshold, the report largely ignores the steps that have already been taken to improve payment integrity in FY 24. During FY 24, the Commission and USAC: 1) increased the quantity of internal Quality Assurance (QA) reviews in the Lifeline program; 2) adopted policies and procedures (P&Ps) to improve eligibility document retention; 3) amended our P&Ps for QAs to focus reviewers on specific eligibility documents with high error rates; 4) released a request for proposal (RFP) seeking optical character recognition (OCR) services to enhance fraud detection in applications; 5) implemented mandatory bi-annual training for its BPO vendor for manual application reviews; and 6) sought new state agency connections to minimize the applications that enter manual review, to name just a few efforts. The Commission and USAC are also currently implementing BPO vendor recommendations issued for the ACP/Lifeline programs by FCC's Office of Inspector General (OIG) in October 2023, which will improve program integrity efforts into the future.

It is also worth noting that the Lifeline program has been on a positive trajectory with respect to reducing the improper payment rate, as it has been reduced from 15.2% in FY 21. However, we recognize that there is room for improvement and will continue to take steps to address waste, fraud, and abuse in all universal service programs.

<u>Finding 2</u>: FCC USF-HC Legacy Program is Non-Compliant with the Requirements of PIIA

We partially concur with the finding and acknowledge that the IPR did not meet the statutory threshold or the FCC's reduction target. But we respectfully disagree with the recommendations, as ultimately they focus on having USAC conduct increased or extensive review of High Cost (HC) Legacy carriers or develop a phased reduction target plan without mention of programmatic reform. We believe doing so would have only marginal results and would not be the most efficient means of reducing the IPR in the long term for HC Legacy.

We do not take missing or insufficient documentation in HC Legacy lightly. At the request of OIG, in FY 23 USAC updated its PIIA assessment procedures to conduct a more in-depth asset documentation and depreciation expense review. This heightened review was not previously part of the PIIA process, and this heightened level of review naturally led to an increase in the number of findings and, in turn, an increase in the reported IPR. The Report does not adequately explain this dynamic or give credit to USAC for updating its PIIA assessment procedures. The Report does, however, acknowledge that USAC, at the Commission's direction, has already taken action consistent with Recommendation 3, by developing a Special Compliance Review (SCR) process where a sample of carriers will be selected for further testing and analysis in an effort to reduce the IPR on this issue.

However, to efficiently address the IPR for HC Legacy, we believe that we should focus on programmatic controls —namely, transitioning carriers away from receiving support based on their reported cost data. The Commission will, therefore, continue to consider ways to transition carriers from HC legacy support mechanisms to forward-looking, model-based support, and to improve the use of model-based support, as recommended by the Government Accountability Office (GAO) in GAO Report 20-27. As mentioned by GAO, the use of model-based support provides the most promise in reducing the improper payment risk stemming from HC Legacy support, because it does not rely on carrier-submitted cost data to determine support amounts. Since 2011, the Commission has successfully transitioned over half of the High Cost programs from backwards-looking accounting-based regulation to forward-looking incentives, including through programs like the Rural Digital Opportunity Fund, Connect America Fund Phase II Auction, A-CAM I, Revised A-CAM I, and A-CAM II. Just in 2023, 118 carriers elected to move from legacy to model (Enhanced A-CAM) support.[1]

While we will take steps towards addressing the recommendations made here, by directing USAC to continue to monitor trends, conduct root cause analysis, develop corrective actions, and engage with HC Legacy stakeholders for feedback and training, we believe that continuing to address the support mechanism itself is a more efficient way to reduce the IPR.

Finding 3: FCC IP Reporting Could Use Improvement

The Commission generally concurs with this finding.

Sincerely,

Mark Stephens

Mark Stephens
Managing Director

[1] In the Enhanced A-CAM order, the Commission said that "consistent with the Commission's longstanding objective of transitioning away from legacy rate-of-return support mechanisms and providing high-cost support based on a carrier's forward-looking, efficient costs, we will permit rate-of return carriers eligible to receive legacy support to elect to participate in the Enhanced A-CAM program instead." *See Connect America Fund, et al.*, WC Docket No. 10-90 et al., Report and Order, Notice of Proposed Rulemaking, and Notice of Inquiry, 38 FCC Rcd 7040, 7078, para. 90 (2023).

APPENDIX C – KEARNEY & COMPANY, P.C.'S (KEARNEY) EVALUATION OF MANAGEMENT'S COMMENTS

Kearney provided a draft of this report to the Federal Communications Commission (FCC or Commission) on April 29, 2025. FCC's management provided a response to the findings, as seen in ***Appendix B – Management's Views on Conclusions and Findings***. In this appendix, we present our evaluation of the validity of FCC's management response in instances where comments are inconsistent with the report findings. The following is Kearney's response to the comments that FCC management provided in regard to our *Audit of the Federal Communications Commission's FY 2024 Compliance with the Payment Integrity Information Act of 2019 (PIIA) requirements*.

Kearney's Response:

Finding #1: In its response, FCC management generally concurred with the finding of noncompliance in the Universal Service Fund – Lifeline Program (USF-LL) program. However, FCC management stated the 80% of the IP rate that stemmed from inaccurate determinations related to manual eligibility documentation reviews performed by the Universal Service Administrative Company's (USAC) Business Process Owner (BPO) is unsupported by the evidence. Kearney notes that the 80% rate referred to was identified by the Lifeline root cause analysis, which was provided to the Audit Team by USAC and posted to www.paymentaccuracy.gov. We noted that these errors were identified by USAC as being within the control of the agency and highlighted the largest contributing factor: BPO manual eligibility determinations errors. Management brought additional errors to our attention, which included documentation that was unavailable for the audit due to a technical issue and opt-out state determinations. We offered to update the Notification of Findings and Recommendations (NFR) to include the secondary and tertiary errors; however, management declined the proposed NFR changes.

FCC stated that the report largely ignores the steps that have already been taken to improve payment integrity in Fiscal Year (FY) 2024. During our audit, Kearney reviewed the improvements listed below. We noted that the improvements were either implemented too late in the FY to have an effect on the IP amounts, or the activities occurred after FY 2024, the scope period of our audit. Consequently, the improvements did not have a significant impact on FY 2024 reporting. These improvements include the following:

- Increased the quantity of internal Quality Assurance (QA) reviews in the Lifeline program
- Adopted Policies and Procedures (P&P) to improve eligibility document retention
- Amended our P&Ps for QA reviews to focus reviewers on specific eligibility documents with high error rates
- Released a Request for Proposal (RFP) seeking optical character recognition (OCR) services to enhance fraud detection in applications
- Implemented mandatory bi-annual training for its BPO vendor for manual application reviews

- Sought new state agency connections to minimize the applications that enter manual review.

FCC management also stated in its response that the Lifeline program has been on a positive trajectory by reducing the improper payment rate (IPR)from 15.2% in FY 2021. Kearney acknowledges that the IPR has decreased since FY 2021. However, the IPR for the Lifeline program increased from 2.18% in FY 2023 to 5.98% in FY 2024, which indicates that the steps taken toward improvement have not been effective for the FY 2024 reporting period.

In light of these facts, our finding remains unchanged.

Finding #2: FCC management partially concurred with Kearney's findings and recommendations. Management agreed that the Universal Service Fund – High-Cost Legacy Program (USF-HC Legacy) did not meet the statutory threshold or the reduction target, but disagreed with the recommendations provided by Kearney. The partial concurrence is due to management's belief that the recommendations proposed by Kearney would only produce marginal reductions of the IPR. Specifically, management believes that, as noted by Government Accountability Office report 20-27, the recommendations should focus on changing carriers from cost reimbursement-based support to model based support. We acknowledge and respect management's perspective regarding the audit recommendations provided. While we may differ on the specific methods proposed, we want to emphasize that the overall objective of the recommendation is to support the reduction of improper payments (IP) and strengthen internal controls.

Our recommendations are based on best practices and identified risks; however, we recognize that there may be alternative approaches that can effectively achieve the same outcome . We are open to and supportive of any strategies management chooses to implement, provided they are reasonably designed and result in mitigating the risk of IPs below the statutory thresholds defined by PIIA.

In light of these facts, our finding remains unchanged.

Finding #3: We appreciate management's concurrence of the audit findings and related recommendations. We look forward to monitoring the implementation of the recommendations.

Appendix D – Status of Prior-Year (PY) Audit Recommendations

Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report) followed up on the status of the recommendations reported in Fiscal Year (FY) 2023. Through the testing procedures completed, we determined the current status of the PY recommendations. Recommendation numbers shown are from the respective FY 2023 and FY 2024 Payment Integrity Information Act of 2019 (PIIA) reports.

FY 2023 Notification of Findings and Recommendations (NFR) Number	Report Recommendation Number	FY 2023 Description	Status	FY 2024 NFR Number	Report Recommendation Number
NFR-23-02	1	Direct the Universal Service Administrative Company (USAC) to continue enhancing applicant outreach programs to educate applicants on the Universal Service Fund – Schools and Libraries Program (USF-S&L) rules, especially rules relating to the competitive bidding processes. Specifically, this may include implementing measures, such as gauging applicant participation to ensure applicants are cognizant of the material being presented or requiring mandatory, comprehensive training for new applicants.	Closed	Not applicable (N/A)	N/A
NFR-23-02	2	Direct USAC to enhance the use of automation tools in the E-Rate Productivity Center (EPC) to check invoices for common errors and invoices that are flagged as having a high risk of non-compliance with program invoicing requirements.	Closed	N/A	N/A
NFR-23-03	3	Develop Policies and Procedure (P&P) that a) acknowledge the interdependent	Closed	N/A	N/A

FY 2023 Notification of Findings and Recommendations (NFR) Number	Report Recommendation Number	FY 2023 Description	Status	FY 2024 NFR Number	Report Recommendation Number
		relationships between the Federal Communications Commission (FCC or Commission), the Telecommunications Relay Service (TRS) Fund Administrator, and TRS Providers; b) address the responsibilities of each party to manage the risks of improper payments (IP); and c) describe methodologies used to obtain assurance that each party manages its risks of IPs appropriately and as intended.			
NFR-23-04	4	Direct USAC to perform a cost-benefit analysis to identify additional approaches for further reducing the improper payment rate (IPR) below the reporting threshold. Additional approaches could include, but are not limited to, evaluating the appropriateness of the volume of applications assigned per reviewer, increasing the effectiveness of employee training, providing program requirement reminders and updates, adding additional layers of review, creating a documentation checklist to determine program eligibility, and providing ongoing coaching to educate staff on the USF-LL Program requirements, including	Repeat	NFR-24-01	1

FY 2023 Notification of Findings and Recommendations (NFR) Number	Report Recommendation Number	FY 2023 Description	Status	FY 2024 NFR Number	Report Recommendation Number
		documentation requirements relating to eligibility.			
NFR-23-05	5	Develop and implement P&Ps to identify, quantify, and report in the Office of Management and Budget (OMB) Annual Data Call any downward revisions that are submitted by providers resulting from providers' non-compliant conduct.	Repeat	NFR-24-03	5

Explanation of Status:

Closed: FCC has successfully implemented its corrective actions related to the FY 2023 recommendation.

Repeat: The FY 2024 recommendation is a repeat from a prior recommendation, which remains open because FCC has not successfully implemented its corrective actions.

Appendix E – Abbreviations and Acronyms

Acronym	Definition
AAD	Audit and Assurance Division
ACP	Affordable Connectivity Program
AFR	Agency Financial Report
AI	Artificial intelligence
BPO	Business Process Owner
CAP	Corrective Action Plan
CARES Act	The Coronavirus Aid, Relief, and Economic Security Act of 2020
CIGIE	Council of the Inspectors General on Integrity and Efficiency
COVID-19	Coronavirus Disease 2019
ECF	Emergency Connectivity Fund
EPC	E-Rate Productivity Center
E-Rate	Universal Service Fund – Schools and Libraries Program
FCC or Commission	Federal Communications Commission
FM	Frequency Modulation
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
Green Book	*Standards for Internal Control in the Federal Government*
IG	Inspector General
IP	Improper payment
IPERIA	Improper Payment Elimination and Recovery Improvement Act of 2012
IPR	Improper payment rate
Kearney	Kearney & Company, P.C.
MVPD	Multichannel Video Programming Distributor
N/A	Not applicable
NFR	Notice of Findings and Recommendations
OCR	Optical character recognition
OIG	Office of Inspector General
OMB	Office of Management and Budget
P&P	Policies and Procedures
PIIA	Payment Integrity Information Act of 2019
PL	Public Law
PY	Prior-Year or Prior Year
QA	Quality Assurance
RFP	Request for Proposal
RHC	Rural Health Care
RL	Rolka Loube, LLC
S&EMP	Sampling and Estimation Methodology Plan
SCR	Special Compliance Review
SCRP	Secure and Trusted Communications Reimbursement Program
TRS	Telecommunications Relay Service
TVBRF	TV Broadcaster Relocation Fund
U.S.C.	United States Code
UP	Unknown payment
USAC	Universal Service Administrative Company
USF	Universal Service Fund
USF-HC	Universal Service Fund High Cost Program
USF-HC Legacy	Universal Service Fund – High-Cost Legacy Programs

Acronym	Definition
USF-HC Modernized	Universal Service Fund – High-Cost Modernized Programs
USF-LL	Universal Service Fund – Lifeline Program
USF-RHC	Universal Service Fund – Rural Health Care
USF-S&L	Universal Service Fund – Schools and Libraries Program

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