OFFICE OF INSPECTOR GENERAL

Memorandum

DATE: May 15, 2018

TO: Chairman Ajit Pai
Commissioner Mignon Clyburn
Commissioner Michael O'Rielly
Commissioner Brendan Carr
Commissioner Jessica Rosenworcel

FROM: David Hunt, Inspector General

SUBJECT: Audit of Federal Communications Commission Compliance with the Improper Payments Elimination and Recovery Improvement Act Reporting for Fiscal Year 2017

The Federal Communications Commission (FCC) Office of inspector General (OIG) submits the attached audit report on the FCC's compliance with improper payment reporting requirements, in accordance with Office of Management and Budget Memorandum M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments.*

The OIG contracted with Lani Eko & Company, CPA's, PLLC (LEC) to audit the FCC's compliance with the Improper Payments Elimination and Recovery Improvement Act (IPERIA) for FY 2017. · The audit was performed in accordance with generally accepted government auditing standards. In the attached report, dated May 15, 2018, LEC reported that the FCC was non-compliant with IPERIA criteria defined in OMB Memorandum M-15-02 because one program exceeded the OMB threshold for reporting improper payments. The auditors also found that two control deficiencies exist, in that FCC did not identify or report fraud as one of the root causes for improper payments and did not timely report improper payments that were identified through sources outside of USAC's recapture audits.

LEC is wholly responsible for the attached audit report and the conclusions expressed therein. The OIG monitored LEC's performance throughout the audit and reviewed LEC's audit report and related audit documentation. Our review did not disclose any instances where LEC did not comply in all material respects with generally accepted government auditing standards.

Questions regarding this report may be directed to Robert McGriff, Assistant Inspector General for Audit, at (202) 418-0483 or robert.mcgriff@fcc.gov; or Sophie Jones, Deputy Assistant Inspector General for Audit at (202) 418-1655 or sophila.jones@fcc.gov.

Attachment

cc: Managing Director
Chief of Staff
Chief Financial Officer

Audit of the Federal Communications Commission Improper Payments Elimination and Recovery Improvement Act FY 2017

(Report No. 18-AUD-01-02)

FINAL REPORT

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EXECUTIVE SUMMARY

The objective of our performance audit of the Federal Communications Commission (FCC) was to evaluate FCC's compliance with the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010 and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, in accordance with the Office of Management and Budget (OMB)'s Memorandum M-15-02, Revised Parts I and II to Appendix C of OMB Circular A-123.

We determined that FCC was non-compliant with IPERIA, in accordance with criteria defined in OMB Memorandum M-15-02 Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*. The table below identifies FCC compliance status with each of the six IPERIA criteria. Additionally, we found that two control deficiencies exist in that FCC did not identify or report fraud as one of the root causes for improper payments, and did not timely report improper payments that were identified through sources outside of Universal Service Administrative Company's recapture audits.

OMB M-15-02 Criteria	Compliant	
	Yes	**No**
Published an Annual Financial Report (AFR) for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website.	X	
Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 U.S.C. as stated in OMB M-15-02. (if required).	X	
Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required).	X	
Published programmatic corrective action plans in the AFR (if required).	X	
Published and is meeting annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable).	X	
Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR.		X

We conducted this performance audit in accordance with generally accepted government auditing standards. 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. Our audit covered the period October 1, 2016 through September 30, 2017.

The detailed findings, recommendations and management responses are provided in the respective sections of this report.

BACKGROUND

The Federal Communications Commission (FCC) is an independent United States government agency, directly responsible to Congress. FCC was established by the Communications Act of 1934 and is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. FCC has seven operating Bureaus and ten Staff Offices. The Bureaus' responsibilities include processing applications for licenses and other filings; analyzing complaints; conducting investigations; developing and implementing regulatory programs; and taking part in hearings.

FCC's component entities are the Universal Service Fund (USF), Telecommunications Relay Service (TRS) Fund, and North American Numbering Plan (NANP). Universal Service Administrative Company (USAC) serves as the Administrator and Billing & Collections (B&C) agent for the USF; RolkaLoube serves as the Administrator and B&C agent for the TRS Fund; and Neustar and Welch LLP serve as the Administrator and B&C agent, respectively, for the NANP. FCC's Office of the Managing Director provides direction to these administrators and B&C agents and approves the administrative costs paid to these entities from the respective funds they manage.

The following nine programs make disbursements under the direction of FCC and its Administrators.

- Universal Service Fund High-Cost Program (USF-HC),
- Universal Service Fund Lifeline Program (USF-LL),
- Universal Service Fund Rural Health Care Program (USF-RHC),
- Universal Service Fund Schools and Libraries Program (USF-S&L),
- Universal Service Fund Administrative Costs (USF-Admin),
- Interstate Telecommunications Relay Service Fund (TRS),
- North American Numbering Plan (NANP),
- FCC Operating Expenses (FCC-OE), and
- Incentive Auction – Winning Bidders (IA-WB).

In 2014, the Office of Management and Budget (OMB) issued Memorandum M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments.* Parts I, II and III of Appendix C, previously issued under OMB Memoranda M-11-16 and M-10-13, were modified by Memorandum M-15-02, effective fiscal year (FY) 2014 and beyond. OMB Memorandum M-15-02 provides government-wide guidance regarding implementation of the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010 and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012. The Recovery Auditing Act of 2002 was, generally, repealed by these amendments to OMB Circular A-123.

OMB Memorandum M-15-02 requires federal agencies to conduct risk assessments to identify programs that are susceptible to significant improper payments, report improper payment estimates for programs that are determined to be susceptible to significant improper payments, and report their efforts in reducing improper payments and recapturing overpayments.

FCC identified the following four programs as being susceptible to significant improper payments: USF-HC, USF-S&L, USF-LL, and TRS. Based on their risk assessments, FCC concluded that four additional programs (USF-RHC, USF-Admin, NANP, and FCC-OE) were not susceptible to significant improper payments. FCC was not required to perform a risk assessment for IA-WB for one-time payments to broadcasters that voluntarily relinquished their spectrum usage rights. The total of all payments issued to broadcasters amounted to $10 billion. FCC utilized an OMB-approved alternative sampling methodology[1] to develop a statistically valid estimate of the improper payments for TRS. FCC's improper payment estimate for TRS was zero. FCC reported its efforts in reducing and recapturing improper payments for all USF and TRS programs, including payment recapture audits for all nine FCC programs, and improper payment corrective actions for USF-LL and USF-S&L.

[1] OMB Memorandum, M-15-02 Part I.A.14

RESULTS OF AUDIT

Based on our audit, we determined that the FCC is non-compliant with the requirements of IPERIA. Additionally, we found a deficiency in procedures used to categorize and report improper payments by root causes, and in the completeness and accuracy of its reporting of improper payments identified outside of USAC's recapture audits. The results of our audit testing are presented below:

FINDING No. 1 – USF-LL GROSS IMPROPER PAYMENT RATE NOT COMPLIANT UNDER REQUIREMENTS OF IPERIA

CONDITION:

FCC is non-compliant with one of the six IPERIA of 2012 requirements. Our audit found that the estimated gross improper payment rate for one of FCC's four programs that were susceptible to the risk of significant improper payments exceeded the OMB statutory limit of less than 10 percent of the program's gross outlay. Specifically, we noted that:

- The estimated gross improper payment rate for the USF-LL exceeded the OMB statutory limit of less than 10 percent of the gross USF-LL outlay.
- The estimated gross improper payment rate increased by 19 percent, from 2.93 percent in FY 2016 to 21.93 percent in FY 2017.

The table below details the estimated gross improper payment rate for USF programs.

FY 2016 versus FY 2017
Source: Agency Financial Report Table 1 (FY 2016 & 2017)
($ in millions)

	FY 2016 (estimated)		FY 2017 (estimated)			Increase/ (Decrease)	Increase/ (Decrease)
FCC Program	Improper Payment Percentage	Improper Payment Amount	Improper Payment Percentag e	Improper Payment Amount	Percent above OMB Threshold	in Improper Payment Percentage	in Improper Payment Amount
USF – LL	2.93%	$40.65	21.93%	$336.39	**11.93%**	19%	$295.74
USF – HC	0.03%	$1.10	0.05%	$2.50	0.00%	0.02%	$1.40
USF – S&L	5.70%	$119.36	4.34%	$103.51	0.00%	(1.36%)	($15.85)
TRS	0.00%	$0.00	0.00%	$0.00	0.00%	0.00%	$0.00

CRITERIA:

OMB Memorandum M-15-02, Appendix C, Part II, Section A(3)(f) states that compliance means the agency has, among other things, "[r]eported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR."

CAUSE:

USAC's procedures for monitoring the telecommunication service providers' compliance with USF-LL rules were not effective to ensure only eligible consumers received USF-LL benefits, or to ensure eligible consumers did not receive multiple USF-LL benefits. Also, for payment reporting in fiscal year 2017, FCC management refined its definition of improper payments in USF-LL to align with OMB Circular A-123, Appendix C criteria.

FCC management informed us that FCC rules and USF-LL policies and procedures were not effective to ensure that sufficient beneficiary eligibility documentation was maintained by service providers. Also, regarding payment reporting in fiscal year 2017, FCC included additional test procedures in order to establish a baseline error rate for USF-LL and those procedures contributed significantly to the increased improper payment error rate.

EFFECT:

Improper payments undermine public confidence in USAC stewardship of taxpayers' dollars, and increase the risk that taxpayers and Congress will lose confidence in the integrity and effectiveness of USF-LL.

RECOMMENDATIONS:

We recommend FCC Management:

1. Perform an assessment to determine whether any regulatory changes are necessary to reduce the USF-LL gross improper payment rate to or below the OMB statutory ceiling of 10 percent of USF-LL outlays.

2. Direct USAC to work with FCC Wireline Competition Bureau to review the plans for implementing the Lifeline National Verifier[2] to ensure the plans will remediate the root causes for USF-LL improper payments listed in the AFR. Also, develop and implement interim

[2]The Lifeline National Eligibility Verifier (National Verifier) is a centralized system that determines whether subscribers are eligible for Lifeline. USAC manages the National Verifier.

procedures for strengthening the processes for monitoring the telecommunication service providers' compliance with USF-LL rules.

3. Submit a plan within 90 days of issuance of the IPERIA Report to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and the OMB, describing the actions FCC will take to make the USF-LL compliant with IPERIA. The plan shall include:

   a. Measurable milestones to be accomplished to achieve compliance for each program or activity;

   b. The designation of a senior agency official who shall be accountable for the progress of the agency in coming into compliance for each program or activity; and

   c. The establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the senior agency official in leading agency efforts to achieve compliance for each program and activity.

4. Share the plan with FCC Office of Inspector General prior to submission to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and the OMB.

MANAGEMENT RESPONSE:

The FCC and USAC management agreed with all of the recommendations proposed by the auditor. Management's response is provided, in full, in Appendix B of this report.

AUDITOR'S RESPONSE:

None.

FINDING No. 2 – FCC LACKS EFFECTIVE PROCEDURES TO DETERMINE THE IMPACT OF FRAUD ON THE USF IMPROPER PAYMENTS

CONDITION:

FCC and USAC did not identify or report improper payments resulting from fraudulent actions by the service providers or the beneficiaries of the three USF programs (USF LL, USF-S&L, and USF-HC) determined by FCC management to be susceptible to the risk of significant improper payments. Out of the calendar year 2016 outlays of $8,574 million for those three USF programs, FCC estimated improper payments of $442 million. Over the years, FCC officials identified fraudulent activities in USF programs, particularly in the USF-LL. However, FCC officials did not report that fraud was a root cause for USF Program improper payments in its AFR or annual report to the U.S. Congress. For example, in 2016 and 2017, FCC management identified or was informed of the following fraudulent activities in the USF programs:

(a) FCC fined a USF-HC service provider $27 million for misappropriation of funds, and issued a $50 million forfeiture order for misconduct;
(b) FCC fined a USF-LL service provider $30 million and ordered the forfeiture of an additional $7.4 million in Lifeline reimbursements held by USAC for the provider fraudulently and knowingly enrolling duplicate, ineligible and phantom subscribers into the Lifeline program; and
(c) The Government Accountability Office (GAO) report, *Additional Action Needed to Address Significant Risks in FCC Lifeline Program*, found that potential annual improper payments of more than $1.2 million could have resulted from individuals receiving multiple lifeline supported services, or for payments for individuals reported as being deceased in the Social Security Administration's Death Master File. GAO further stated that USF-LL providers inappropriately approved applicants with fictitious eligibility documents nearly two-thirds of the time.

CRITERIA:

OMB Memorandum 15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, Part I, Section C(1)(h) - *Other Reason* (Row 13), states, "[I]n instances where agencies are able to identify improper payments resulting from fraud, they should report those dollar amounts in this row unless they already report fraud through a mechanism outside of the annual improper payment process (e.g., an annual report to Congress)."

OMB Memorandum 15-02, *Appendix C to Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, Section C(2), states, "[W]hen agencies are reviewing the root causes of improper payments, or analyzing areas for supplemental measures and targets, agencies should be mindful of maintaining a focus on fraudulent activity within the program. For instance, fraudulent actions (e.g., using fraudulent documents to receive a benefit or contract payment) may have an impact on agency outlays, and may also be something that agencies can reduce through improved pre-payment reviews and additional safeguards. Agencies should refer matters involving possible fraudulent activities to the appropriate parties as determined by specific agency policy. Such parties may include, but are not limited to, the Office of Inspector General or the Department of Justice."

GAO's *Framework for Managing Fraud Risks in Federal Programs (GAO-15-593SP)*, states, "to the extent possible, agencies should conduct data matching to verify key information, including self-reported data and information necessary to determine eligibility, prior to enrollment to avoid the "pay-and-chase"[3] approach to risk management, which is typically a less cost-effective use of resources."

CAUSE:

While FCC and USAC management have issued directives that outline policies, procedures, and responsibilities for preventing, detecting and reporting fraud, the directives did not address identifying and reporting fraud as a root cause of improper payments.

EFFECT:

Because the FCC did not report fraudulent activities as a root cause of USF program improper payments, FCC's corrective actions for reducing and recapturing improper payments may be less effective. Also, Congress may not be fully informed of the impact of fraud on the effectiveness of USF programs.

RECOMMENDATION:

We recommend FCC Management:

5. Instruct USAC to implement procedures to examine the root causes of improper payments, and to determine the likelihood and develop an estimate of those resulting from fraudulent activities, to ensure more accurate reporting in the AFR and to the U.S. Congress and OMB.

[3] The practices of detecting fraudulent transactions and attempting to recover funds after payments have been made.

MANAGEMENT RESPONSE:

The FCC and USAC management agreed with all of the recommendations proposed by the auditor. Management's response is provided, in full, in Appendix B of this report.

AUDITOR'S RESPONSE:

None.

FINDING No. 3 – IMPROVEMENT IS NEEDED IN FCC's PAYMENT INTEGRITY REPORTING

CONDITION:

FCC did not timely report improper payments identified through sources outside of USAC's payment recapture audits in FCC's FY 2017 AFR, issued on November 15, 2017. After the conclusion of our IPERIA audit fieldwork, in February 2018, FCC and USAC management informed us that they identified potential improper payments to USF-S&L beneficiaries and service providers who did not file their invoices timely. After researching the beneficiaries and service providers' invoices and other records, FCC and USAC management determined that $1,927,890 in payments to USF-S&L beneficiaries and service providers were, in fact, improper.

Also, FCC and USAC disclosed the following actual and potential improper payments that are related to funding years 2014 through 2017, but identified after the AFR was issued:

(i) A total of $3,362,162 of USF-S&L improper payments for special construction services (e.g., installation) that occurred after the Service Delivery Deadline, and improper payments on invoices submitted after the filing deadline, and

(ii) Two cases of potential USF-S&L improper payments and one case of potential USF-Rural Health Care (RHC) improper payments, for which USAC is still researching the beneficiaries and service providers' invoices and other records to determine whether payments were, in fact, improper. The potential improper payments to USF-S&L and USF-RHC beneficiaries and service providers were as follow:

(a) $2,477,080 in payments to USF-S&L beneficiaries and service providers for unauthorized services,

(b) $4,883,275 in payments to USF-S&L beneficiaries and service providers in excess of the authorized commitment amounts, and

(c) $1,008,092 in payments to USF-RHC service providers for eligible telecommunication services provided subsequent to the "Support End Date" on the executed Funding Commitment Letter.

CRITERIA:

OMB Circular A-136, Financial Report Requirements, Section II.5.5 (II) (d), states, "For each program or activity that expends $1 million or more annually and either conducts a payment recapture audit or recaptures payments outside of a payment recapture audit, report the amount recovered through recapture audits and amounts recovered through sources other than payment recapture audits, including the percent such amounts represent of the total overpayments identified for recapture. For example, agencies could report on IPs identified through: statistical samples conducted under IPIA; agency post-payment reviews or audits; Office of Inspector General reviews; Single Audit reports; self-reported overpayments; or reports from the public. Agencies may group amounts by program or activity or in total per the source of recapture, as appropriate."

GAO's Standards for Internal Control in the Federal Government, Principle No. 11, states, "Management should design the entity's information system and related control activities to achieve objectives and respond to risks."

CAUSE:

(a) USF-S&L:

According to USAC, its program and finance staff identified improper payments through processes outside of USAC payment recapture audits, including during its on-going implementation of the E-Rate Modernization Order and the E-Rate Productivity Center system. However, those improper payments were not elevated to USAC management for timely reporting in the FCC's FY 2017 AFR. This occurred because of management and staff turnover, and because USAC staff were not clear on the OMB's definition of what is an improper payment. Also, USAC erroneously assumed that obtaining waivers from FCC's invoicing rules would render the payments proper.

(b) USF-RHC:

USAC management informed us there was a system configuration deficiency in the system used for submitting RHC invoices. Also, the system did not perform edit checks to ensure that the "Service End Date" on FCC Form 467[4], *Connection Certification Form*, was on or before the "Support End Date" designated on the FCL[5]. Similarly to the USF-S&L, there was turnover in the USF-RHC, and staff did not elevate the improper payments to USAC management for timely reporting in the FCC FY 2017 AFR.

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[4] FCC Form 467 is used by healthcare providers (HCP) to confirm the following occurred during the funding year: Service Start Date, Service End Date, and if telecommunication service was never turned on.

[5] FCL is evidence of USAC's approval HC provider's request for telecommunication services specified in FCL contingent upon HC provider submitting an FCC Form 467.

EFFECT:

There is increased risk that USAC management and oversight bodies (i.e., Congress, OMB, FCC and USAC Board of Directors) lack complete and accurate payment information needed to fulfill their roles with respect to combating waste, fraud, and abuse in the USF–S&L and USF–RHC programs.

RECOMMENDATIONS:

We recommend that FCC management:

6. Require USAC to develop and implement improper payment reporting guidance for its program and financial staff. That guidance should include (a) a definition of what is an improper payment, (b) procedures and requirements for communicating improper payment information to USAC management and oversight bodies, and (c) the responsibilities for, and method of such communication.

7. Require USAC to conduct training for all appropriate USF program and finance staff, on a periodic basis, to further clarify and emphasize the requirements of guidance for reporting improper payments.

8. Require USAC to conduct periodic checks of Information Technology systems that support USF programs, to ensure that their configurations support complete, accurate and valid processing of USF data and payments.

MANAGEMENT RESPONSE:

The FCC and USAC management agreed with all of the recommendations proposed by the auditor. Management's response is provided, in full, in Appendix B of this report.

AUDITOR'S RESPONSE:

None.

APPENDIX A – OBJECTIVES, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether FCC has complied with the six IPERIA criteria defined in the OMB Memorandum M-15-02, Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*:

1. Published a Performance and Accountability Report (PAR) or Agency Financial Report (AFR) for the most recent fiscal year and posted that report and any accompanying materials required by OMB on the agency website;
2. Conducted a program-specific risk assessment for each program or activity that conforms with IPERIA, Section 3321 of Title 31 U.S.C. (if required);
3. Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);
4. Published programmatic corrective action plans in the PAR or AFR (if required);
5. Published, and has met, annual reduction targets for each program assessed to be at risk and measured for improper payments; and
6. Reported a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR.

Also, we evaluated the accuracy and completeness of FCC's IPERIA reporting and performance in reducing and recapturing improper payments.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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. Our audit covered the period October 1, 2016 through September 30, 2017.

To achieve the objectives, we performed audit procedures as deemed appropriate including:

- Obtained and reviewed significant provisions of laws and regulations applicable to IPERIA.
- Reviewed GAO reports on IPERIA and related challenges faced by federal agencies in implementing IPERIA, to update our understanding and awareness of compliance issues with IPERIA.
- Made inquiries with appropriate FCC officials and obtained documentation to understand the following: how FCC implemented the provisions of IPERIA; significant

programs/activities; guidance provided in FCC's directives and policies and procedures manuals; documentation maintained to support IPERIA data; information reported on the AFR; and FCC's oversight over the calculation of improper payments.

- Reviewed previous years' reports to understand the FCC's IPERIA program and processes, challenges, and focus areas for process improvement and reporting.
- Reviewed FCC's effort in improving the IPERIA process by following up on FCC's implementation of prior year audit recommendations.
- Reviewed FCC's FY 2017 AFR, *Payment Integrity* for compliance with revised requirements for reporting IPERIA, outlined in OMB Circular No. A-136, *Financial Reporting Requirements*.
- Reviewed the latest program risk assessments for compliance with OMB Memorandum M-15-02 risk assessment requirements.
- Reviewed sampling plans, sampling results and FCC's correspondence with the OMB.
- Validated the improper payment rate calculation methodology and the amounts reported for the TRS program.
- Reviewed the AFR, *IPERIA Payment Integrity*, and obtained additional supporting documentation to evaluate FCC's effort in preventing, reducing, and recovering improper payments.
- Reviewed FCC's processes for identifying and reporting of recaptures of improper payments.
- Reviewed, recalculated, and agreed with key figures and information in the AFR, *IPERIA Payment Integrity* to supporting documentation including USF-HC, USF-S&L, and USF-LL.
- Reviewed FCC's IPERIA reporting quality control procedures and supporting documentation.

APPENDIX B - MANAGEMENT'S RESPONSE

UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION

Office of Managing Director

MEMORANDUM

DATE: May 9, 2018

TO: David L. Hunt, Inspector General

FROM: Mark Stephens, Managing Director

SUBJECT: Management’s Response to Independent Auditor's Report on the Federal Communications Commission's Improper Payments Elimination and Recovery Improvement Act (PERIA) Reporting for Fiscal Year (FY) 2017

Thank you for the opportunity to respond to the draft report from tl1e Office of lnspector General (OIG) to the Managing Director, regarding the Federal Communications Commission’s (FCC or Commission) compliance with the requirements described in the Office of Management and Budget (OMB) *Memorandwn Af-15-02. Appendix* C *to OMB Circular No. A-I 23, Requirements for Effective Estimation and Remediation of Improper Payments,* for the year ending September 30, 2017. We appreciate the efforts of your team and the independent auditors, Lani Eko & Company, CPAs, PLLC, to work with the Commission on this audit.

We recognize that the auditors identified the Universal Service Fund's (USF) Lifeline program as not being compliant because estimated improper payments exceeded 10 percent of that program's gross outlay (with estimated improper payments of $336.39 million in 20 17, or 21.93% of funds disbursed). The FCC worked with the Universal Service Administrative Company (USAC), the USF Administrator, to add new testing procedures to its payment quality assurance program for Lifeline to align with OMB Circular A-123, Appendix C criteria. These new procedures were added to establish a baseline error rate for the Lifeline program. These new testing procedure revealed that the FCC's rules as well as the policies and procedures for the Lifeline program were not effectively ensuring that Lifeline service providers were maintaining sufficient documentation to determine whether Lifeline payments were proper. For example, in those instances where inadequate certifications or a lack of eligibility documentation was identified, those transactions were treated as improper payments. Inadequate certifications, including insufficient language on Lifeline providers ' certification forms, accounted for a large percentage of the overall improper payment rate for the Lifeline program. The FCC will continue to work with USAC to bring the Lifeline program in compliance with the requirements of the Improper Payments Elin1ination and Recovery Improvement Act of 2012 (!PERIA), Public Law 112-248. The FCC has already started to take corrective actions along with USAC to remediate the documentation issues that were discovered in the Lifeline program through the new

Testing procedures. For example, the FCC has established and obtained Paperwork Reduction Act approval for universal enrollment and certification forms, which providers must implement in their enrollment systems by July 1, 2018.

The auditors also determined that current management procedures need enhancements to determine the impact of fraud on improper payment in the USF programs and that improvement is needed for payment integrity reporting. We agree that the recommendations to remediate these findings will help decrease the potential risk of noncompliance with IPERJA and will assist the FCC and USAC in their oversight of the USF programs. The FCC will work with USAC to resolve these findings so that they will not occur in future audits.

The Commission continues to work diligently to comply with the requirements of the law, to adhere to OMB's guidance, and to prevent and reduce improper payments in the Commission's programs. We will look forward to updating the OIG and its auditor on progress made toward improving our processes going forward.

Mark Stephens
Managing Director

APPENDIX C – LIST OF ACRONYMS

AFR	Agency Financial Report
B&C	Billing and Collection
FCC	Federal Communications Commission
FY	Fiscal Year
GAO	Government Accountability Office
IPIA	Improper Payments Information Act
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IC–WB	Incentive Auction – Winning Bidders
NANP	North American Numbering Plan
NLAD	National Lifeline Accountability Database
OE	Operating Expenses
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
TRS	Telecommunications Relay Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund
USF-HC	Universal Service Fund - High Cost

USF-LL	Universal Service Fund – Lifeline (formerly Low Income)
USF- S&L	Universal Service Fund - Schools and Libraries