



Federal Communications Commission

**Audit of USAC's Oversight of the
Universal Service Fund Contributions Process**

23-AUD-05-01

January 31, 2024





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Ms. Sophila Jones
Assistant Inspector General for Audit
Office of Inspector General
Federal Communications Commission

Dear Ms. Jones:

Williams, Adley & Company-DC, LLP, performed an audit of the Universal Service Administrative Company's (USAC) oversight of the Universal Service Fund (USF) contribution process. We performed the audit in accordance with Contract No. 140D0423F0148. Our report presents the results of the audit and includes recommendations to help USAC improve its oversight of the USF contributions process.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards, 2018 Revision, April 2021 Technical Update, issued by the Government Accountability Office. 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 our performance audit was to evaluate whether the internal controls over the USF contribution payment process via the E-file system are effective, timely, and include all service providers that are legally obligated to make USF contributions per the Telecommunications Act of 1996.

To accomplish our objectives, we interviewed personnel from USAC's Finance and Audit and Assurance Divisions as well as FCC Enforcement Bureau (EB). We also reviewed documentation related to USAC's contribution oversight process and the information technology general controls around the E-File system. The scope of the audit was limited to the USF contributions data and processes related to the FCC Form 499-A and FCC Form 499-Q submitted for the calendar year (CY) 2021. We conducted our audit from February 2023 through October 2023. [Appendix 1](#) provides a more detailed description of our objective, scope, and methodology. We appreciate the opportunity to have conducted this audit. Should you have any questions or need further assistance, please contact us at (202) 371-1397.

A handwritten signature in cursive script that reads 'Leah Southers'.

Leah Southers, CPA, CISA, CGFM, CFE
Partner

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EXECUTIVE SUMMARY

As requested by the Federal Communications Commission’s (FCC or Commission) Office of Inspector General, Williams, Adley & Company-DC, LLP, (defined as “Williams Adley,” “we,” and “our” in this report) conducted a performance audit of the Universal Service Administrative Company’s (USAC) oversight of the Universal Service Fund (USF) contribution process. We conducted our audit in accordance with applicable *Government Auditing Standards*, 2018 revision, technical update April 2021, issued by the Comptroller General of the United States.

The objective of our performance audit was to evaluate whether the internal controls over the USF contributions payment process via the E-file system are effective, timely, and include all service providers that are legally obligated to make USF contributions per the Telecommunications Act of 1996. To accomplish the audit objective, we interviewed personnel from USAC’s Finance Division and the Audit and Assurance Division (AAD) as well as FCC Enforcement Bureau (EB) personnel. We also reviewed documentation related to USAC’s contribution oversight process and the information technology general controls around USAC’s E-File system. The scope of the audit was limited to the USF contributions data and processes related to the FCC Form 499-A and FCC Form 499-Q submitted for the CY 2021. [Appendix 1](#) is a more detailed description of our audit objective, scope, and methodology.

We determined that USAC had effective internal controls in place to ensure that USF contributions were accurate, timely, and include all eligible¹ service providers, except for USAC’s process for referring service providers to the FCC EB for potential enforcement action. USAC did not refer any eligible service providers to the FCC EB during CY 2022, despite instances where eligible service providers failed to make their universal service contributions obligation required by the Telecommunications Act of 1996.² We communicated this to the FCC in [Finding #1: No Action to Collect Unpaid USF Contribution Obligations](#). In a written response, which is included in its entirety as [Appendix 2](#), management concurred with our finding and recommendations and identified its planned corrective actions to address our recommendations.

¹ For purposes of this report, eligible is defined as a service provider subject to the FCC’s filing and USF contributions rules.

² 47 U.S.C § 254(d).

BACKGROUND

The FCC is an independent United States government agency, established by the Communications Act of 1934, as amended. The Commission is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. Its jurisdiction spans the 50 states, the District of Columbia, and the U.S. territories.

The Commission is comprised of three reporting components. The primary component consists of Commission headquarters and field offices. The two additional components are the Universal Service Fund (USF) and the Telecommunications Relay Service Fund. The USF reports the results of the four universal service programs: High-Cost (also known as the Connect America Fund); Lifeline; Schools and Libraries (also known as E-Rate); and Rural Health Care. The USF also reports the results of the Connected Care Pilot Program.

The USF is a vital component of the United States' commitment to ensuring access to affordable and advanced telecommunications services for all citizens. Established by the Telecommunications Act of 1996, the USF plays a pivotal role in bridging the digital divide by providing financial support to telecommunications carriers and service providers that offer essential communications services to underserved and unserved communities across the country. While the FCC is responsible for the overall management and policy decisions related to USF, in 1997, the Universal Service Administrative Company (USAC) was established as a not-for-profit subsidiary of the National Exchange Carrier Association, Inc. The FCC appointed USAC as the permanent administrator of the four aforementioned USF programs.

As the permanent administrator of the USF, USAC is responsible for the effective administration of the programs, including collecting contributions and administering the disbursement of those contributions to support the programs. The Telecommunications Act of 1996 requires telecommunications carriers and other providers of interstate telecommunications services to contribute, on an equitable and nondiscriminatory basis, to the USF.³ These contributions fund the USF and allow the Commission to preserve and advance the FCC's goal of universal service.

Annually, companies are required to submit their actual revenues from the previous CY to USAC via the FCC Form 499-A Telecommunications Reporting Worksheet (FCC Form 499-A) using the E-File System.⁴ For example, CY 2021 revenues are reported on the FCC Form 499-A that is submitted in CY 2022 (herein referred to as the 2022 FCC Form 499-A). Contribution obligations are determined by applying a contribution factor percentage to their end-user interstate and international revenues. The contribution factor changes each quarter, varying with the demand for universal service support.⁵ To the extent that a service provider's annual revenues, as

³ 47 U.S.C § 254(d).

⁴ USAC employs an online form submission application called E-File, which enables service providers to electronically input data as well as submit, verify, and certify the FCC Form 499-A.

⁵ The contribution factors for each quarter of 2021 were: Q1 31.8%, Q2 33.4%, Q3 31.8%, and Q4 29.1%, respectively. (See [Contribution Factor & Quarterly Filings — Universal Service Fund \(USF\) Management Support | Federal Communications Commission \(fcc.gov\)](#))

reported on their FCC Form 499-A, lead to a calculated annual contribution to the USF of less than \$10,000, they are granted a de minimis exemption.⁶ If granted the de minimis exemption, the service provider is not required to contribute to the USF for that year.

The actual USF contribution obligation for CY 2021 was \$9.277 billion.⁷ Highlights related to the 2022 FCC Form 499-A (which reports the CY 2021 revenue) include:⁸

- 7,563 entities submitted an FCC Form 499-A
- 3,406 (45%) of the entities that submitted the FCC Form 499-A were USF contributors
- 4,157 (55%) of the entities that submitted the FCC Form 499-A qualified for the de minimis exemption

As displayed in the chart below, of the 3,406 contributors that submitted a 2022 FCC Form 499-A, 72% of the USF was funded by contributions from top 20 entities.

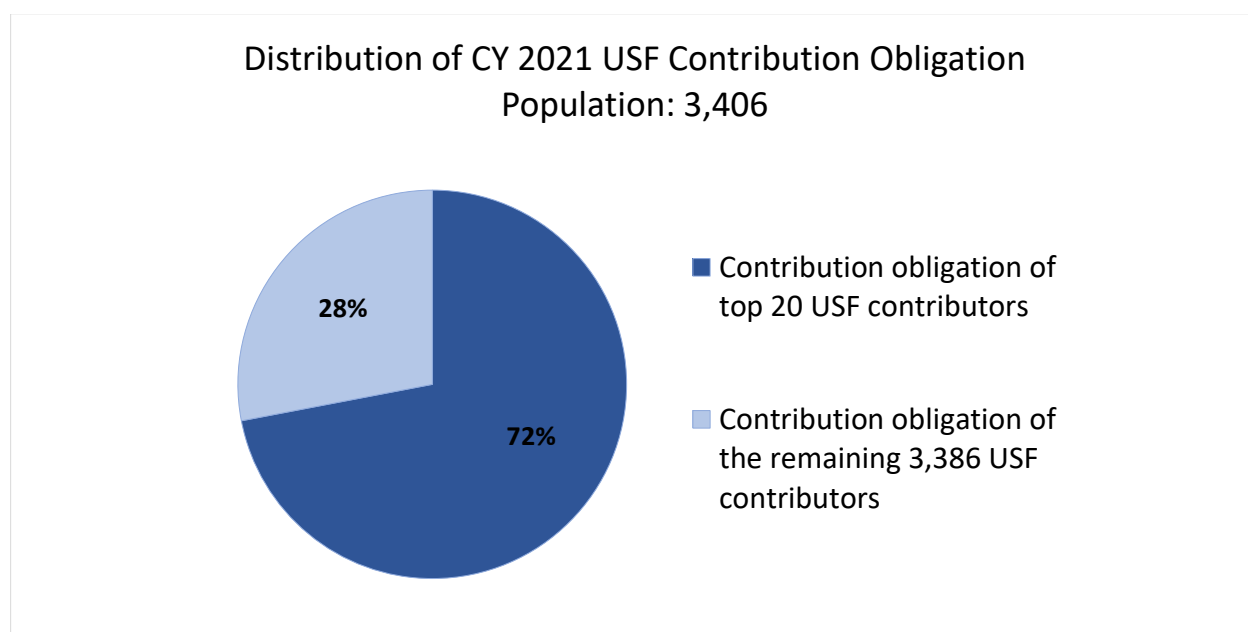


Figure 1. Distribution of CY 2021 USF Contribution Obligation

In accordance with the USAC and FCC memorandum of understanding, to the extent that a service provider is failing to make their contribution obligation to the USF, USAC shall refer the service provider to the Commission’s EB and the Commission’s Office of Inspector General, as

⁶ See 47 CFR § 54.708.

⁷ See USAC’s 2022 Annual Report – Quarterly Breakdown of Receipts and Outlays for the 2020-2022 Calendar Years table.

⁸ The amounts represent filing, contribution, and de minimis status are based on source documentation provided by USAC as of August 2023.

applicable,⁹ for consideration of enforcement action in a timely manner.¹⁰ Currently, USAC's process of determining which service providers are referred to the FCC EB is subjective, and typically involves referring (1) repeat offenders that have a large amount of revenue and (2) a mix of service providers that fall into the following three categories:

- Non-filers: Service providers that are required to file an FCC Form 499-A but have neither filed nor paid their universal service contribution required by law.
- Non-responders: Service providers that fail to respond to USAC's inquiries and/or requests for information.
- Non-payers: Service providers that have not paid their overdue USF payments to USAC.

AUDIT RESULTS

Overall, we found that USAC had effective internal controls¹¹ in place to ensure that USF contributions are accurate, timely, and include all eligible service providers except for USAC's process for referring service providers to the FCC EB for potential enforcement action. USAC did not refer any eligible service providers to the FCC EB during CY 2022, despite instances where eligible service providers failed to make their universal service contributions obligation required by the Telecommunications Act of 1996.¹²

Sub-Objective 1: Adequacy of USAC's Controls for Receiving USF Contribution Forms (FCC Form 499-A)

Based on our testing, we determined that USAC had effective internal controls to ensure that service providers transmitted accurate revenue data on the 2022 FCC Form 499-A, which in turn is used by USAC to determine the contributions due to the USF.

We noted that USAC relied on a combination of automated controls within the E-File system, complemented by manual controls, to validate the integrity of the revenue data. The E-File system integrated more than 30 compliance and consistency checks, encompassing comparisons between prior year and current year, trend analysis, and specific rules analysis. The E-File system automatically approved submissions of FCC Forms 499-A that successfully passed all compliance and consistency checks. When an FCC Form 499-A submission failed to meet any compliance and consistency check criteria, a USAC Senior Telecom Industry Analyst (STIA) performed a manual review. To evaluate the effectiveness of this review process, we selected a nonstatistical sample of 45 filers (35 approved from automated system reviews and

⁹ Per the FCC Office of Managing Director, the FCC's Anti-Fraud Directive directs USAC to refer rule violations to the FCC OIG only when there are allegations of fraud.

¹⁰ Memorandum of Understanding between the Federal Communications Commission and the Universal Service Administrative Company, section IV.A.9.

¹¹ Internal control is the process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved (GAO-14-704G: Standards for Internal Federal Internal Control Standards, 2014 revision, section OV1.01).

¹² 47 U.S.C § 254(d).

10 from manual STIA reviews). For each sample, we obtained the service providers' 2022 FCC Form 499-A, E-File system notes, and any correspondence between USAC and the contact responsible for the filing. For the automatically approved forms, our testing indicated that the compliance and consistency checks were accurately applied to all sampled 2022 FCC Forms 499-A. For manually reviewed forms, we identified the system-generated flags for each sampled form. We reviewed the revenue reported on each form and the flagged issues to assess the accuracy of the flags. Further, we tested to ensure that the STIAs addressed flagged issues in accordance with USAC's Form 499 Review Policy document.

Based on the results of our testing, we determined that the issued flags accurately reflected discrepancies with the sampled forms, and STIAs effectively handled flagged issues in accordance with USAC policies.

In addition to testing processing controls over the E-File system, we also tested information technology controls supporting the system. Based on our testing, we concluded that the information technology general controls are operating effectively and do not introduce additional risk to USAC's processing of USF payments and reports.

In addition to the automated and manual controls USAC had in place, we determined that USAC effectively implemented outreach efforts to help filers submit accurate information to USAC for calculating USF contributions. Specifically, we noted USAC employed a diverse range of outreach measures to facilitate service providers' understanding of the FCC rules pertaining to revenue reporting on the FCC Form 499-A. These initiatives encompassed more than 20 online training and workshop opportunities per year, quarterly newsletters, and one-on-one outreach by USAC STIAs. Additionally, the E-File system prompts and guides service providers regarding specific reporting sections, incorporates data field restrictions, and provides alerts to facilitate accurate information entry. Moreover, USAC's website contained an array of resources, including links to forms available to service providers for contributing to the USF, and information on USAC-initiated contributor revenue audits and common issues.

Sub-Objective 2: Accuracy and Timeliness of Collections

Based on the testing conducted, we determined that USAC had effective processes to ensure that USF contribution obligation amounts, including late fees, are calculated accurately and collected timely, with the exception of the process for referring service providers to the FCC EB. (See [Finding #1](#) below.)

As discussed in [Sub-Objective 1](#) above, USAC provided educational outreach to service providers via several different mediums. They also reviewed the submitted FCC Forms 499-A to ensure accurate revenue data. In addition, as a detective control, USAC's Audit and Assurance Division conducted audits over select submitted FCC Forms 499-A (known as Contributor

Revenue Audits¹³) annually as part of AAD’s annual Beneficiary and Contributor Audit Plan. Based on review of the 11 most recently completed audits,¹⁴ we noted a total of 34 audit findings. Eight of these findings resulted as the service providers inaccurately reported revenues on their FCC Form 499-A, leading to a \$2.5 million overpayment of required contributions to the USF.

Further, we determined that USAC employed a variety of measures to reduce delinquency, both in the submission of the FCC Form 499-A and in the payment of invoices. We determined that USAC appropriately applied late filing fees to all service providers that were more than 30 days delinquent in submitting their FCC Form 499-A, as required by the FCC Rules.¹⁵ Additionally, our testing revealed that USAC sent at least two different notifications to the service providers reminding them of their obligations to file the forms, and created an estimated form for the service providers that did not file timely. This estimated form allowed USAC to bill the associated late filing fees. For the filing of the 2022 FCC Form 499-A, the measures USAC had in place resulted in over 80% of the service providers filing either on time or within 30 days of the deadline. These filings represented 98.7% of the total contributions base.

To the extent that invoices were paid late, we determined that USAC sent reminder notices to the service provider and communicated the penalties and interests for late payments. We also determined that USAC accurately applied appropriate late fees and interest as required by the FCC rules.¹⁶

Despite the application of late fees, interest, and penalties, along with USAC’s outreach efforts, if a service provider remains delinquent in paying their debt or submitting their FCC Form 499-A, they may be referred to the FCC EB for further action. Although USAC had a process in place to refer delinquent service providers to the FCC EB for further action, we concluded that the process was not documented. Further, USAC did not follow its process in CY 2022: no service providers were referred to the FCC EB, despite the results of our audit identifying eligible service providers that failed to make their universal service contributions obligation as required by the Telecommunications Act of 1996.¹⁷ See [Finding #1](#) for additional detail.

Sub-Objective 3: Completeness of Eligible Service Providers

Based on the testing conducted, we determined that USAC lacked a documented process for referring service providers, who are legally obligated to make USF contributions but did not file a FCC Form 499-A, to the FCC EB for enforcement action (as discussed in [Finding #1](#)).

¹³ Contributor Revenue Audits include an in-depth review of the revenues reported on select FCC Forms 499-A to determine whether the revenues are complete and accurately reported on the correct form line and within the correct jurisdiction.

¹⁴ The 11 audits were a part AAD’s 2021, 2022, and 2023 BCAP plans, which span 10/1/2020 through 9/30/2023.

¹⁵ See 47 CFR 54.713(c).

¹⁶ See 47 CFR 54.713(b), 47 CFR 1.1940(d), FCC 07-150, 31 U.S.C. § 3711(g), 31 C.F.R. § 901.1(d).

¹⁷ 47 U.S.C § 254(d).

Additionally, we determined USAC relied on its Whistleblower Reporting system,¹⁸ and the reporting requirements for customer revenue as “reseller revenue” in Block 3 of the FCC Form 499-A to identify service providers who may be potential contributors to the USF but are unknown to USAC. However, our audit identified limitations in data availability that prevent USAC from taking additional measures to ensure the contributions service provider population is complete. We identified the following limitations:

- **Lack of national database for telecommunication providers.** Per discussion with USAC and our own independent research, no national database identifies all telecommunications providers. If this national database existed, we would recommend that USAC use the database to verify a Filer ID for all eligible service providers.
- **Lack of available information about eligible service providers at the state level.** Based on the research we conducted for five randomly selected states, we noted that the publicly available information did not have adequate data available to identify eligible service providers.
- **Lack of relevant data captured in FCC’s Commission Registration System.** The FCC Commission Registration System does not capture data fields (e.g., types of services offered) that would enable USAC to determine whether the business is an eligible service provider.

Sub-Objective 4: Accuracy of De Minimis Reporting

Based on testing performed, we identified instances of inaccurate self-reporting of de minimis status. However, we determined that USAC had adequate procedures in place to ensure accurate billing of all service providers’ 2021 contribution obligations, regardless of their self-reported de minimis status during the year. Specifically, we determined that if the FCC Form 499-A indicates that a service provider does not meet the de minimis standard, USAC billed the entity for its full USF obligation, regardless of any earlier self-reporting. Conversely, service providers meeting the de minimis standard based on their FCC Form 499-A, but who had contributed throughout the year, received refunds for previously billed USF obligations.

In addition, we determined that USAC had processes in place to identify service providers who may incorrectly claim de minimis status during the year, whether intentionally or in error. Specifically, the E-File system automatically compared FCC Forms 499-A to FCC Forms 499-Q to identify large variances between quarterly and annual reporting, which are then investigated by USAC’s STIAs.

¹⁸ <https://www.usac.org/about/contact-usac/submit-a-whistleblower-alert/>

Finding 1: No Action to Collect Unpaid USF Contribution Obligations

Condition: In CY 2022, we found instances where service providers failed to make their USF contributions required by the Telecommunications Act of 1996.¹⁹ However, USAC did not refer any service providers to the FCC EB for appropriate enforcement action in CY 2022. Specifically, we identified the following as of September 2023:

- **Non-filers:** 22²⁰ service providers did not qualify for the de minimis exemption and had not filed their 2022 Forms 499-A. The estimated contribution obligation due from these 22 non-filers was \$2,339,310, or 0.03% of the total actual USF contributions for CY 2021.²¹ One of the 22 non-filers has not filed an FCC Form 499-A since 2009. The remaining 21 non-filers had delinquent filings ranging from 2017 to 2022.
- **Non-responders:** 146 service providers had not responded to USAC's inquires and/or requests for supporting documentation about their 2022 Forms 499-A filings. Service providers in this category may have outstanding contribution obligations to the USF, which may need settlement depending on the nature and outcome of USAC's inquiries.
- **Non-payers:** 75 service providers had unpaid invoices related to their CY 2021 contribution obligations, with an outstanding debt totaling \$26,292,830,²² or 0.3% of the total actual USF contributions for CY 2021.²³

While the uncollected contributions represent only a fraction of the percent of the total estimated USF contributions required in CY 2021, the Telecommunications Act of 1996 mandates collecting the contribution obligation from contributors. In addition, although USAC had a referral process for advising the Commission of any enforcement issues, USAC did not have a formally defined and documented process specifying the frequency of the referral and conditions that would trigger referral of service providers to the FCC EB for potential enforcement actions.

Cause: The FCC EB referral process requires collaboration from both USAC's Finance Division and FCC EB. Based on discussion with USAC, both parties have been working together to develop this process since CY 2019. Although tweaks were consistently being made, the criteria triggering a referral was never formally established and a finalized process was never documented. In CY 2022, the two key USAC Finance Division personnel responsible for creating

¹⁹ 47 U.S.C § 254(d).

²⁰ Of the 22 non-filers and potential contributors, five were referred to the FCC's Enforcement Bureau before 2022 and of the five referred, two are being investigated.

²¹ The total actual USF contributions for CY 2021 was \$9.277 billion. See USAC's 2022 Annual Report – Quarterly Breakdown of Receipts and Outlays for the 2020-2022 Calendar Years table.

²² The outstanding balance represents contributions, late fees, interest, and penalty debt (for all contribution years including 2021) held at USAC and the U.S. Department of Treasury.

²³ The total actual USF contributions for CY 2021 was \$9.277 billion. See USAC's 2022 Annual Report – Quarterly Breakdown of Receipts and Outlays for the 2020-2022 Calendar Years table.

and implementing the EB referral process resigned, so the EB referral process was not finalized and documented.

Further, these two individuals were also responsible for implementing the EB referral process. According to USAC, delinquent service providers were not referred to the FCC EB during CY 2022 because their duties were not transitioned to other team members.

Effect: Without a defined, documented, and consistent EB referral process, the risk of USAC failing to refer noncompliant service providers to the FCC EB for potential enforcement action is increased. Consequently, as there were no referrals in CY 2022, the FCC’s ability to take enforcement action in light of its one-year statute of limitations may be limited.²⁴

In addition, USAC’s failure to make any referrals in CY 2022 resulted in known uncollected amounts owed to the USF totaling \$28,632,140 as of September 2023.

- 22 service providers that did not qualify for the de minimis exemption had not filed their 2022 FCC Forms 499-A (non-filers). The estimated contribution obligation in this category was \$2,339,310, which was billed by USAC throughout CY 2021 and in July 2022. (Note: As the 2022 Forms 499-A had not been filed, USAC created estimates based on the service providers most recent FCC Forms 499-A.)
- 146 service providers had not responded to USAC’s inquiries related to the 2022 FCC Form 499-A (non-responders). These service providers may have outstanding contribution obligations depending on the nature and outcome of the open inquiries.
- 75 service providers had not paid invoices for their CY 2021 contribution obligation (non-payers) and had outstanding debts totaling \$26,292,830.

The uncollected total of \$28,632,140 owed to the USF qualifies as funds to be put to better use.²⁵

Criteria: 47 Code of Federal Regulations § 54.713 Contributors’ Failure to Report or to Contribute, section A states:

“Failure to file the Telecommunications Reporting Worksheet or submit required quarterly contributions may subject the contributor to the enforcement provisions of the Act and any other applicable law. The Administrator shall advise the Commission of any enforcement issues that arise and provide any suggested response.”

²⁴ The FCC must issue a Notice of Apparent Liability for Forfeiture (NAL) within the time limits set in 47 U.S.C § 503(b)(6), which establishes a one-year statute of limitations to issue an NAL. Further, 47 CFR § 1.80(c)(5) states “no penalty shall be imposed if the violation occurred more than 1 year prior to the date on which the appropriate notice is issued.” Exceptions to the one-year statute of limitations are limited.

²⁵ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if a recommendation is implemented.

47 U.S.C. § 254(d) states:

“Every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service. The Commission may exempt a carrier or class of carriers from this requirement if the carrier's telecommunications activities are limited to such an extent that the level of such carrier's contribution to the preservation and advancement of universal service would be de minimis. Any other provider of interstate telecommunications may be required to contribute to the preservation and advancement of universal service if the public interest so requires.”

Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government (GAO-14-704G), section OV4.08 states:

“Documentation is a necessary part of an effective internal control system. The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs. Management uses judgment in determining the extent of documentation that is needed. Documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system. The Green Book includes minimum documentation requirements as follows:

- Management develops and maintains documentation of its internal control system. (paragraph 3.09).
- Management documents in policies the internal control responsibilities of the organization. (paragraph 12.02)”

Furthermore, section 3.10 states:

“Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.”

Memorandum of Understanding between the Federal Communications Commission and the Universal Service Administrative Company, section IV.A states:

“8. Notification of Rule Violations and Potential Waste, Fraud and Abuse. USAC will alert designated point of contact with the Commission's Office of Inspector General (OIG), Enforcement Bureau (EB), OMD, WCB, WTB, as appropriate, where it identifies evidence of rule violations, waste, fraud, or abuse in the USF programs or USF contribution matters.

9. Enforcement Referrals. As required in Section IV.A.8 above, USAC staff including program and audit staff, shall refer any rule violations and potential waste, fraud, and abuse to the Commission’s Enforcement Bureau and the Commission’s Office of Inspector General, as applicable, for consideration of enforcement action in a timely manner. The EB point of contact shall ensure distribution of referrals to the appropriate divisions within EB.”

Recommendation: We recommend the FCC ensure that USAC:

1. Take action, as deemed appropriate, against the 243 service providers identified in the condition and effect sections to recover the \$28,632,140 contributions owed to the USF.
2. Collaborate with the FCC EB to prioritize the development, documentation, and implementation of a process for referring service providers to the FCC EB. Examples of decisions to be considered when developing the process should include, but are not limited to:
 - a. Defining criteria that, when met by a service provider, results in referral to the FCC EB.
 - b. Determining the timing of the referrals to reduce the likelihood of the one-year statute of limitations preventing enforcement action by the FCC EB.
3. Develop and implement a process to ensure the responsibilities of an employee separating from USAC are transitioned to another team member before the employee leaves USAC.

APPENDIX 1: OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our audit objective was to determine whether internal controls over the USF payment process via the E-file system are effective, timely and include all service providers. To conclude on this objective, we addressed the following four sub-objectives, as well as tested information technology general controls around the E-file system:

1. Reviewed adequacy of controls over the process for service providers to transmit contributions due to the USF/USAC as calculated on the FCC Form 499-A.
2. Determined whether USAC ensures that collections from service providers into the USF are accurately submitted within the timeframe established by the FCC and that the late fees are assessed and collected timely by USAC, where applicable.
3. Determined whether USAC ensures that all service providers that are eligible per FCC guidelines are contributing to the USF.
4. Determined whether USAC ensures filers that apply for de minimis status accurately report revenues on their FCC Form 499-A and qualify as a non-filer per FCC guidance.

Scope and Limitations

The scope of the audit was limited to the USF contributions data and processes related to the FCC Form 499-A and FCC Form 499-Q submitted for the calendar year 2021. We conducted this audit from February 2023 through October 2023. As discussed in the audit results for sub-objective 3 section above, we could not perform all the audit procedures needed to test the completeness of the population of the contributors due to limitations in the availability of data from sources external to USAC. Although this impacted our ability to determine whether all potential service providers are contributing to the USF, we obtained sufficient evidence to conclude that USAC had procedures in place to identify service providers that are required to contribute to the USF based on the available information.

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.

Methodology

To accomplish the objective of the audit, Williams Adley identified the applicable criteria against which to assess the effectiveness USAC's oversight of the USF contributions (or payment) process. In addition, as part of gaining an understanding of the organization, we inquired about investigations or legal proceedings involving the audit objective and reviewed the applicable internal policies and procedures.

APPENDIX 1: OBJECTIVES, SCOPE AND METHODOLOGY

We reviewed USAC standard operating procedure documents, such as the USAC FCC Form 499-A Billing Narrative, Billing Process Policy and underlying procedure documents, FCC Form 499 Processing Policy (including the FCC Form 499-A: Annual Review, FCC Form 499-Q: Review and Management, and Non-Filer Research procedure documents). We performed walkthroughs with personnel from USAC's Finance and Audit and Assurance Divisions, as well as select FCC Enforcement Bureau personnel. In addition, we selected multiple non-statistical²⁶ samples and reviewed applicable documentation to determine whether USAC's internal controls over the USF contributions process were designed and operating effectively. We tested internal controls related to the following processes:

- Review and approval of submitted 2022 FCC Form 499-As to ensure data is accurate.
- Accuracy of amounts billed on invoices, including late fees, interest, and other penalties and processes around quality control to ensure invoices are accurately calculated and billed.
- Referral of non-filers, non-payers, and non-responders to the FCC's EB or, when fraud is involved, the Office of Inspector General.
- Information technology general controls over USAC's E-File system.

Further, we performed select procedures to identify ways in which USAC can ensure all service providers required to contribute to the USF are actually contributing and various analyses over data related to the FCC Form 499-A.

We assessed the significance of internal controls by (1) reviewing Standard Operating Procedure documents related to the USF contributions process; and (2) performing walkthroughs with USAC Finance Division and AAD personnel to get an understanding of controls over the process and (3) obtaining an understanding of the information technology general controls around the E-File system. We determined the operating effectiveness by gathering information, inspecting documents, and re-performing certain procedures. As noted in [Finding #1](#) above, we identified deficiencies in the design and effectiveness of USAC's process of referring service providers to the FCC EB for potential action. Our 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.

We assessed the reliability of the data generated from the E-File system provided by (1) inquiring USAC's Finance Division knowledgeable about the source of the data, parameters around how the data was generated, and information technology general controls, (2) comparing the data received to our understanding of the processes in place, and (3) tracing a

²⁶ Auditor judgment was used to ensure accurate coverage of specific attributes within populations based on our understanding of the nature of the Form 499A filing (due April 1st) and USF invoicing process which includes the annual true-up process (i.e., reconciling service provider estimated quarterly reporting via the Form 499Q to the actual revenues reported via the Form 499A) performed in July.

APPENDIX 1: OBJECTIVES, SCOPE AND METHODOLOGY

sample of data to source documents. We determined the data was sufficiently reliable for the purposes of this report.

APPENDIX 2: MANAGEMENT'S RESPONSE



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

To: Sharon Diskin, Acting Inspector General, FCC

From: Mark Stephens, Managing Director, FCC

Date: January 18, 2024

Subject: Management's Response to Independent Auditor's Report on the Universal Service Administrative Company's Oversight of the Universal Service Fund Contributions Process

Thank you for the opportunity to respond to the draft report from the Office of the Inspector General (OIG) to the Managing Director, regarding the Universal Service Administrative Company's (USAC) Oversight of the Universal Service Fund (USF) Contributions Process. The Federal Communications Commission (FCC or Commission) appreciates the efforts of your team to work with the Commission on this audit, and we share your interest in ensuring that the internal controls over the USF contribution processes are effective, timely, and include all service providers that are legally obligated to contribute to the USF.

We agree with the findings and recommendations in the report, and we will work to implement these recommendations as soon as possible. With respect to recommendations one and two, USAC will work with the FCC to continue to develop, document, and implement its processes for referring service providers for potential enforcement. The enforcement referral process is an important part of the suite of tools that the FCC has put in place to help ensure service providers are compliant with their USF obligations. The FCC for its part will continue to evaluate enforcement referrals as they come to the Commission and will investigate and take action as appropriate. This approach is consistent with the FCC's other enforcement efforts related to USF. Prioritizing investigations provides the most benefit to the overall USF control environment. Through targeted enforcement actions, the FCC is able to hold entities responsible for violating the FCC's rules while at the same time producing a deterrent effect on future potential violators by sending a clear message as to the potential consequences.

In the addition, the FCC would like to note the following about the 22 non-filers mentioned in the report. If a contributor fails to file its FCC Forms 499-A or 499-Q in a timely manner, the Commission's rules provide that: "the Administrator shall bill that contributor based on whatever relevant data the Administrator has available, including, but not limited to, the

APPENDIX 2: MANAGEMENT'S RESPONSE

number of lines presubscribed to the contributor and data from previous years, taking into consideration any estimated changes in such data.”²⁷ Following this guidance, USAC created an estimated Form 499-A for 2022 for each of the 22 filers that included the full amount of USF contribution base revenues for each filer. USAC then used these revenues to calculate and invoice each entity through the USF Form 499A/Q True Up process, which is a calculation that adjusts the service provider’s USF obligations for the prior calendar year. USAC also billed the entities for the late filing fees that they owed per the Commission’s rules.²⁸

Furthermore, with respect to the non-payers mentioned in the report, pursuant to the Debt Collection Improvement Act (DCIA) of 1996, Pub. L. No. 104-134 and the FCC’s rules, if the debtor does not pay in full by the due date, the following penalties are instituted:

- **One Day Late:** The entity will be put on “red light” status the day after the payment due date. The red light rule provides that anyone delinquent in non-tax debts to the Commission who files an application or other request for a benefit will be unable to obtain action from the FCC until the delinquent debts have been paid in full or other satisfactory arrangements have been made.²⁹ The red light rule requires USAC to withhold all future USF disbursements to that entity and any associated entities until the delinquency has been satisfied. Interest begins to accrue daily as of the delinquency date at the annual U.S. prime rate plus 3.5 percent, until that debt is paid pursuant to the FCC’s rules.³⁰ If the full amount of the outstanding debt, and associated administrative fees and penalties, is paid within 30 days of the due date, all interest will be waived.
- **91 Days Delinquent:** A DCIA penalty (an additional daily penalty based on an annual rate of six percent) will be retroactively applied from the date of delinquency to any part of the debt that is more than 90 days past due.³¹ The full amount of the outstanding debt is also now eligible for a DCIA transfer to the U.S. Department of the Treasury for debt collection; if transferred, the debtor will be required to pay the administrative costs of processing and handling a delinquent claim as set by the Treasury.³²

USAC’s records show that all service providers that did not pay their invoice for their USF contributions for calendar year 2021 (scope of the audit) have been: 1) put on red light status, 2) charged the late payment fees of prime plus 3.5%, 3) charged the 6% penalty, and 4) transferred to U.S. Treasury for additional collection activities.

²⁷ 47 CFR § 54.709(d).

²⁸ 47 CFR § 54.713(c).

²⁹ 47 CFR § 1.1910.

³⁰ 47 CFR § 54.713(d).

³¹ 31 CFR § 901.9.

³² 31 U.S.C. §§ 3711, 3716, 3717; 31 CFR § 285.12, 31 CFR §§ 900 – 904; 47 CFR § 1.1901, 47 CFR 54.713; and Treasury Financial Manual, Volume I, Part 3, Chapter 5000, *Collecting Nontax Debt Through the Treasury Cross-Servicing Program*.

APPENDIX 2: MANAGEMENT'S RESPONSE

Finally, with respect to recommendation three, USAC will endeavor to the best of its ability to develop and implement a process to ensure that the responsibilities of an employee separating from USAC are transitioned to another team member before the employee leaves USAC. There are instances in which an employee may leave before their responsibilities can be transferred; however, USAC will work to train any new employees that may be backfilling an open position as soon as possible once they are on board.

The FCC looks forward to working with USAC to implement these recommendations and continue to strengthen the controls around the USF contributions process for the future.

Sincerely,

**MARK
STEPHENS**

Digitally signed by
MARK STEPHENS
Date: 2024.01.18
16:48:43 - 05'00'

Mark Stephens
Managing Director

APPENDIX 3: AUDITOR EVALUATION OF MANAGEMENT’S RESPONSE

We acknowledge that management concurred with the finding and all recommendations in our report. In developing its corrective action plan, we encourage management to be more specific in its proposed actions to implement or address reported recommendations and to develop the associated implementation or action date timeline. Additionally, FCC management made a number of assertions in its response concerning Debt Collections Improvement Act and other internal processes being implemented for billing delinquent contributors, which were unaudited. Accordingly, we express no opinion on the response.

APPENDIX 4: ABBREVIATIONS AND ACRONYMS

Acronym	Definition
AAD	USAC's Audit and Assurance Division
CY	Calendar Year
CFR	Code of Federal Regulations
EB	FCC Enforcement Bureau
FCC	Federal Communications Commission
FCC Form 499-A	FCC Form 499-A Annual Telecommunications Reporting Worksheet
STIA	Senior Telecom Industry Analyst
USAC	Universal Service Administrative Company
USF	Universal Service Fund