



OFFICE OF INSPECTOR GENERAL
Memorandum

DATE: June 15, 2020

TO: Chairman Ajit Pai
Commissioner Michael O'Rielly
Commissioner Brendan Carr
Commissioner Jessica Rosenworcel
Commissioner Geoffrey Starks

FROM: Inspector General *For RM*

SUBJECT: Audit of Federal Communications Commission Compliance with the Improper Payments Elimination and Recovery Improvement Act Reporting for Fiscal Year 2019

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 (OMB) Memorandum M-18-20, Appendix C to OMB Circular A-123, *Requirements for Payment Integrity Improvement*.

The OIG contracted with Lani Eko & Company, CPAs, PLLC (LEC) to audit the FCC's compliance with the Improper Payments Elimination and Recovery Improvement Act (IPERIA) for FY 2019. The audit was performed in accordance with generally accepted government auditing standards. In the attached report, dated June 15, 2020, LEC reported that the FCC was non-compliant with IPERIA criteria, defined in OMB Memorandum M-18-20, for five of its nine reportable programs. The non-compliant programs were the four Universal Service Fund (USF) Programs and the Interstate Telecommunications Relay Services (TRS) Fund.

The audit report includes two repeat findings of non-compliance with IPERIA, one for the USF-High Cost (USF-HC) Program and one for the USF-Lifeline (USF-LL) Program. The audit found that management's methodology for estimating USF-HC Program improper payments did not evaluate components of the program that posed significant risks of improper payments. The audit found that the USF-Lifeline (LL) Program was non-compliant with IPERIA because management understated the program's improper payments by \$205 million. The auditors concluded that management should have reported this \$205 million, in addition to the \$109 million of improper payments that management reported in the FCC FY 2019 Agency Financial Report. The unreported improper payments would have increased the total USF-LL improper payments to \$314 million, or approximately 26.88 percent of the total USF-LL Program outlays, thus exceeding the IPERIA improper payment rate threshold of not more than 10 percent.

The audit report also included three new findings of non-compliance with IPERIA relating to the USF-Rural Health Care (USF-RHC) Program, USF-Schools and Libraries (USF-S&L) Program, and the TRS Fund. The USF-RHC Program was non-compliant with IPERIA because the program's estimated improper rate of 11.46 percent of total program outlays exceeded the IPERIA improper payment rate threshold of not more than 10 percent of program outlays. The USF-S&L Program was non-compliant because FCC management did not meet the program's improper payment reduction target. The audit also found that the TRS Fund was non-compliant with the IPERIA because the FCC and TRS Fund Administrator's test plan used to estimate the improper payment rate did not sufficiently address program components that posed significant risks of improper payment. As a result, the TRS fund's improper payment rate may be underestimated. The audit report also discusses weaknesses in FCC programs that contributed to the audit findings.

FCC management partially concurred with three of the audit report findings, specifically the findings for the USF-LL Program, USF-RHC Program, and USF-HC Program. Management did not concur with two findings, those pertaining to the USF-S&L Program and the TRS Fund. The USF Administrator partially concurred with each of the four USF Program findings. The TRS Administrator did not concur with the finding for TRS Fund. The audit report includes FCC management's response, in full, along with a summary of the response received from the USF and TRS Fund administrators. The auditors considered management's response in developing the final audit report.

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