



Federal Communications Commission Office of Inspector General

Fiscal Year 2021 Emergency Broadband Benefit Program Performance Audit

21-AUD-10-01

June 21, 2022

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June 21, 2022

Office of Inspector General
Federal Communications Commission
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Washington, D.C. 20554

To the Office of Inspector General:

Kearney & Company, P.C. (Kearney) has performed an audit of the Federal Communication Commission's Emergency Broadband Benefit Program (EBBP). This performance audit, 21-AUD-10-01, was designed to meet the objectives identified in the report section titled "Executive Summary" and further defined in *APPENDIX A – SCOPE AND METHODOLOGY OF THE AUDIT*.

This performance audit was performed from July 2021 through June 2022 in accordance with the Generally Accepted Government Auditing Standards (GAGAS), 2018 Revision, issued by the Government Accountability Office (GAO). Those standards require Kearney to plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives. 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 the Federal Communications Commission's (FCC) personnel during the audit.

Sincerely,



Kearney & Company, P.C.
Alexandria, VA
June 28, 2022

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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) Emergency Broadband Benefit Program (EBBP). Kearney conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States.

The performance audit was conducted from July 2021 through March 2022. Our scope included the Fiscal Year (FY) 2021 Emergency Broadband expense data for the data months of June, July, and August 2021.

The objectives of this performance audit were to determine whether the FCC and its Participating Providers (Provider[s]) used EBBP funds to 1) benefit eligible households and 2) pay for eligible program expenses¹ in the appropriate amounts during the emergency period. The EBBP emergency period began on December 27, 2020 and is effective until six months after the Secretary of the Department of Health and Human Services (HHS) determines that the public health crisis related to the Coronavirus Disease 2019 (COVID-19) terminates². Specifically, Kearney was engaged to determine whether the FCC made EBBP reimbursements to Providers that met the Provider eligibility requirements established by the FCC. These requirements included determining whether:

- The FCC implemented effective internal controls that ensure the Providers verified household eligibility in accordance with Section 904 of the Consolidated Appropriations Act of 2021
- The FCC implemented internal controls that are effective in verifying that payments were made to eligible Providers for eligible benefit claims or customer discounts; reducing improper payments; and preventing fraud, waste, and abuse in the EBB program
- Whether the FCC implemented effective internal controls to ensure that Providers comply with the requirements of Section 904 of the Appropriations Act.

We found that EBBP funds were disbursed to Providers that met the Provider eligibility requirements established by the FCC. Of the 385 reimbursements tested, we did not identify any errors with the controls established to determine Provider eligibility.

Overall, Kearney found that the FCC did not have effective controls in place to ensure the verification of household eligibility when manual review was required. Further, we found deficiencies with FCC’s reliance on Providers to self-certify that the requirements under Section 904 of the Consolidated Appropriations Act of 2021 had been met. We also found that FCC did not have effective controls 1) to ensure that payments made to eligible Providers were for eligible expenses; 2) to reduce improper payments; and 3) prevent fraud, waste, and abuse in the

¹ Consolidated Appropriations Act, div. N, tit. IX, § 904(a)(7)

² Consolidated Appropriations Act, div. N, tit. IX, § 904(a)(8)

EBB program. Specifically, we found that of 385 claimed household reimbursements tested, 49 failed control testing. Of the 49 specific errors, Kearney noted:

- Three were for subscribers who did not meet program eligibility requirements
- Four were for claimed reimbursements, which the Provider failed to provide supporting documentation
- 16 service invoices provided were for reimbursements of service rates that were not on the approved election forms
- 24 device invoices provided were for device reimbursements that were not on the approved election forms
- Two were for reimbursement claims that the Provider admitted was an error

Please see *APPENDIX A – SCOPE AND METHODOLOGY OF THE AUDIT* of this report for the scope and methodology of the audit.

BACKGROUND

FCC Background and Mission

The FCC is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The FCC also regulates telecommunications and advanced communication services and video programming for people with disabilities. The Communications Act of 1934 (Act) created the FCC by centralizing authority granted by law to several agencies and granting additional authority with respect to interstate and foreign commerce in wire and radio communication. The FCC was charged with executing and enforcing the provisions of the Act. The FCC’s jurisdiction covers the 50 states, the District of Columbia, and United States possessions. The purpose of the Act is to “[regulate] interstate and foreign commerce in communication by wire and radio so as to make available... to all the people of the United States without discrimination... a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges³.” Additionally, the Act’s purpose is to support effective execution of policies related to national defense and the safety of life and property using wire and radio communication.

The responsibilities granted to the FCC by this Act include, but are not limited to, collecting regulatory fees, assessing fines, and conducting auctions. The Universal Service Fund (USF) was created by the Act as the mechanism by which interstate long-distance carriers were assessed fees to subsidize telephone service to low-income households and high-cost areas (i.e., rural areas where infrastructure is more costly).

In 1996, Congress passed the Telecommunication Act of 1996 (1996 Act), a major legislation amending, repealing, or adding new legislation to the Act. The 1996 Act was enacted to promote competition and reduce regulation to secure lower prices and higher-quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies. The 1996 Act also added and changed some rules to account for the emerging internet. Additionally, the 1996 Act expanded the traditional definition of affordable, nationwide telephone service, to include, among other things, rural health care providers and eligible schools and libraries, as well as expanded the programs supported by the USF.

Title IV of the Americans with Disabilities Act of 1990 established the Telecommunications Relay Service (TRS) fund. TRS compensates TRS providers for 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. The costs of providing interstate TRS are recovered from subscribers of interstate telecommunications services.

Enactment of Emergency Broadband Benefits Program

On December 27, 2020, the Consolidated Appropriations Act of 2021 became law and established an Emergency Broadband Connectivity Fund of \$3.2 billion in the United States Department of

³ 47 U.S.C. 151

the Treasury (Treasury) to help Americans afford internet service during the COVID-19 pandemic⁴. The Consolidated Appropriations Act of 2021 directed the FCC to use the Fund to establish an EBBP, under which eligible low-income households received discounted broadband service and subsidized costs for connected devices to stay connected during the COVID-19 pandemic⁵. The FCC adopted the rules and policies creating and governing the EBBP on February 25, 2021⁶. The FCC's Wireline Competition Bureau (WCB), FCC staff, and the Universal Service Administrative Company (USAC) are responsible for overseeing and administering the processes and systems needed for the EBBP. The EBBP concluded on December 31, 2021 and was replaced by the Affordable Connectivity Program (ACP). Eligible households continued to receive EBBP benefits until March 1, 2022⁷.

The EBBP provided a discount of up to \$50 per month toward broadband service for eligible households and up to \$75 per month for households on qualifying Tribal lands. Eligible households could also receive a one-time discount of up to \$100 to purchase a laptop, desktop computer, or tablet from Providers if they contribute more than \$10 and less than \$50 toward the purchase price. The EBBP was limited to one monthly service discount and one device discount per household⁸.

Provider Eligibility

Providers that wished to participate in the EBBP were first required to receive approval from the FCC WCB prior to submitting an election notice to USAC unless they were already designated as Eligible Telecommunications Carriers (ETC) for the Lifeline program. Following an approval from the FCC or for Providers that did not require FCC approval, the Provider submitted an election notice to USAC. The election notice included a description of the internet service offerings the provider planned to offer under the EBBP and documentation to demonstrate the standard rate for those services as of December 1, 2020⁹. In addition, the election notice included the states for which the Provider planned to seek reimbursement. Providers were also required to indicate whether they would offer connected devices under the program. For Providers who also offered connected devices, the election notice included documentation detailing all applicable costs of the connected device and a description of the devices to be offered¹⁰.

The Providers could request FCC approval to use an Alternative Verification Process (AVP) to determine household eligibility, rather than use the National Verifier (NV). The NV is a centralized application system that aides in determining eligibility for EBBP. The NV accesses

⁴ Consolidated Appropriations Act, div. N, tit. IX, § 904(i)(2)

⁵ Consolidated Appropriations Act, div. N, tit. IX, § 904(i)(3)

⁶ FCC-21-29A1

⁷ FCC-22-2

⁸ 47 CFR § 54.1603

⁹ 47 CFR § 54.1601

¹⁰ FCC-21-29A1(23)(e)

state and Federal databases to verify household eligibility for the EBBP. Once a household's eligibility was verified, the Provider entered subscriber information into the National Lifeline Accountability Database (NLAD). To receive Commission approval to use an AVP, a provider must demonstrate that its AVP process is at least as stringent as the methods used by the NV. Specifically, the Commission required Providers who use an AVP to collect the applicant's information, such as name, phone number, date of birth and address, and include the basis for qualification in the program. Providers were required to demonstrate how the application information was verified and explain why the AVP would be sufficient to avoid waste, fraud, and abuse. In addition, AVP plans were required to detail how the Provider trained its employees to prevent ineligible enrollments. AVP plans were submitted to the WCB for review and approval. For Providers that had existing eligibility criteria for low-income or COVID-19 program subscribers prior to EBBP, then the AVP was automatically approved. For all other plans, the FCC decided whether the AVP was sufficient to prevent fraud, waste, and abuse and notified the Provider within seven days whether the AVP was approved¹¹.

EBBP Providers received reimbursement by filing a claim through the online Lifeline Claims System (LCS), the same system used by ETCs to receive reimbursement for offering Lifeline-supported services to eligible consumers. The claim process began with the Provider downloading the list of subscribers eligible for reimbursement in LCS. The list is a report in LCS based on the NLAD "Subscriber Snapshot" report. NLAD is a database of all subscribers who have met the eligibility criteria for EBBP and enrolled as a subscriber. Providers keep the database current by making updates to subscriber information and de-enrolling subscribers who are no longer eligible for EBBP. Providers could only claim reimbursement for the total number of subscribers entered in the NLAD on the data month's snapshot date, which was the first day of the following month. Providers could claim fewer subscribers than listed on the snapshot but not more. If a Provider failed to include all of its Lifeline subscribers in NLAD before the snapshot date, the Provider could not retroactively add the subscribers to NLAD for reimbursement purposes. Additionally, the Providers were responsible for ensuring the dollar amount claimed was correct and making any necessary adjustments to it, as needed. After making any necessary adjustments, the Providers submitted the list into LCS and executed the required certifications, including certifying that the provider had complied with all program rules. The EBBP support was then paid each month based on the Provider's actual reimbursement claim. EBBP rules required Providers to certify their claims by the 15th day of the month. At the implementation of the program, WCB granted waivers to some Providers, which allowed them to certify claims later than the 15th day of the following month.

Household Eligibility Determination

To apply for program support, households were required to verify their eligibility by submitting an application by mail, through a Provider, or online via the EBBP website. An applicant is required to provide supporting documentation verifying that they meet at least one of the seven qualifying criteria specified under 47 Code of Federal Regulations (CFR) § 54.1605(a). In addition to meeting at least one of the qualifications in order to constitute an eligible household,

¹¹ FCC 21-29A1(66)

no member of the household could already be receiving an EBBP discount. After submitting the application, the NV automatically checked the consumer's information against several state and Federal databases to determine if the consumer is eligible based on income or participation in Supplemental Nutrition Assistance Program (SNAP), Medicaid, Supplemental Security Income (SSI), Federal Public Housing Assistance (FPHA), or the Nutrition Assistance Program. If the consumer's information was not found in the available databases, the consumer could provide additional information for verification. The additional information could be submitted online through the consumer/Provider portal or by mail to the Lifeline Support Center. Submitting supporting documentation to the NV initiated a manual review process by agents at the Lifeline Support Center.

USAC and FCC EBBP Payment Administration

As the program administrator, USAC was responsible for implementing EBBP; however, FCC made the final approvals for reimbursements. Providers were required to obtain an FCC Registration Number and register with the System for Award Management. Monthly, USAC compiled certified claim information into a flat file that was sent to FCC. USAC also included a certified payment file memorandum that included details of the payments included in the flat file. Once received, FCC reviewed the details of the file and disbursed payments.

To encourage participation, FCC waived the "red light rule" for EBBP providers. Under the "red light rule," USAC is required to net or withhold payments for Providers who are delinquent under the Debt Collection Improvement Act¹².

AUDIT RESULTS

Assessment of Provider Eligibility Controls

We determined that the FCC had sufficient controls in place to verify that the Providers are eligible for program participation. In addition, we found that the FCC's review of AVP applications was sufficient. We found that the FCC either provided an application decision within seven days or requested additional information from the Provider.

Assessment of Household Eligibility Controls

We found that the FCC controls were not effective in preventing incorrect household eligibility determinations during manual review. Household eligibility for EBBP support was determined by one of three methods: 1) the NV; 2) a provider's AVP; or 3) confirming existing enrollment in the Lifeline program. We found that approximately 19% of reimbursement claims were based on new enrollments verified by the NV, 21% were based on new enrollments verified by a provider's AVP, and the remaining 60% were based on enrollments by existing Lifeline subscribers. Of the 19% of reimbursement claims that were based on enrollments verified by the NV, 82% were automatically verified by the NV and 18% required additional documentation to

¹²FCC 21-29A1 (105)

be manually reviewed by USAC to determine eligibility. Please see ***Finding A*** of this report for our results of testing.

Assessment of Internal Control to Reduce Improper Payments

We determined that the FCC approved claimed reimbursements that were not eligible per EBBP rules. We also found that FCC controls related to the EBB program were not effective for ensuring that payments made to eligible service providers were only for eligible expenses, reducing improper payments, and preventing fraud, waste, and abuse.

Please see ***Finding A*** of this report for our results of testing.

Assessment of Provider Compliance with Section 904 of the Consolidated Appropriations Act

We noted deficiencies due to USAC and FCC's reliance, solely, on Providers to self-certify that the Provider met program requirements compliance. As required by 47 CFR § 54.1608 (e), FCC and USAC relied on the Providers to certify that they followed the provisions of EBBP. However, FCC and USAC did not have controls in place to independently verify that Provider claims were valid before reimbursements were made. Please see ***Finding 1*** of this report for our results of testing.

FINDING 1: IMPROVEMENTS NEEDED TO PROGRAM CONTROLS OVER THE EBB PROGRAM

Condition(s): Of the 385 claimed reimbursements randomly sampled for testing, FCC and USAC approved 40 claims that were made by Providers whose service rates charged for monthly recurring services and amounts charged for connected devices differed from the amounts in the Provider's approved election notices. Moreover, for 16 of 385 reimbursements tested, the Providers certified reimbursements for service rates charged that could not be confirmed because the invoice details did not match the provided election notice offerings available as of December 1, 2020. For 24 of 385 reimbursements tested, the Provider certified reimbursements for connected devices that could not be confirmed because the connected device invoice details did not match the provided election notices reviewed.

In addition, FCC and USAC approved reimbursements for Providers that could not provide evidence, through documentation, that the reimbursement was for services or devices received by an eligible household. Specifically, for three of 385 samples, FCC and USAC reimbursed Providers for providing service and connected devices to households that did not meet the eligibility criteria. One subscriber, who was determined eligible because of Medicaid enrollment, did not provide eligibility documentation except for a driver's license, the second subscriber was approved based on being enrolled in SNAP; however, upon further review, the eligibility documentation provided was an application for SNAP and not an approval for SNAP. The third subscriber noted a household size of nine, which would be within program guidelines

based on income; however, the supporting tax documents provided only showed a household size of four, which would not support EBBP eligibility at the income level provided.

Moreover, FCC and USAC approved reimbursements for Providers that could not provide documentation that subscribers were invoiced for services or devices. Specifically, for two out of 385 samples, FCC and USAC reimbursed Providers for connected devices that were not on the invoice provided for support and that the Providers noted were never received by the eligible household. One of the device invoices provided had a mobile number listed which the Provider confirmed was a mobile device and not eligible. The other device invoice did not show a discount for the device and the Provider stated that the subscriber was only charged for half of the month of service and provided no further documentation. Further, FCC and USAC approved reimbursements for four out of 385 reimbursements where the Provider failed to provide any supporting documentation, as required by 47 CFR 54.1608(e)(11).

Criteria:

47 CFR § 54.1605(a), *Household qualification for Emergency Broadband Benefit Program* of the FCC rules, Subchapter B, Subpart P, states:

“To constitute an eligible household, for the Emergency Broadband Benefit Program, a subscriber must provide evidence that they qualify under one of the options provided in 47 CFR § 54.1605(a) (1-7).”

47 CFR § 54.1608(e)(11), *Reimbursement for providing Emergency Broadband Benefit Program discount*, of the FCC’s rules, Subchapter B, Subpart P, states:

“In order to receive Emergency Broadband Benefit Program reimbursement, an officer of the participating provider must certify, as part of each request for reimbursement, that: All documentation associated with the reimbursement form, including all records for services and/or connected devices provided, will be retained for a period of at least six years after the last date of delivery of the supported services and/or connected devices provided through the Emergency Broadband Benefit Program, and are subject to audit;”

47 CFR § 54.1608(e)(8), *Reimbursement for providing Emergency Broadband Benefit Program discount*, of the FCC’s rules, Subchapter B, Subpart P, states:

“In order to receive Emergency Broadband Benefit Program reimbursement, an officer of the participating provider must certify, as part of each request for reimbursement, that: That the connected device claimed meets the Commission's requirements, that the reimbursement claim amount reflects the market value of the device, and that the connected device has been delivered to the household;”

47 CFR § 54.1608(e)(10), *Reimbursement for providing Emergency Broadband Benefit Program discount*, of the FCC’s rules, Subchapter B, Subpart P, states:

“In order to receive Emergency Broadband Benefit Program reimbursement, an officer of the participating provider must certify, as part of each request for reimbursement, that: The provider has retained the relevant supporting documents that demonstrate the connected devices requested are eligible for reimbursement.”

FCC 21-29 para. 72, states:

“Internet service offering is defined as broadband internet access service provided by such provider to a household, offered in the same manner, and on the same terms, as described in any of such provider’s offerings for broadband internet access service to such household, as on December 1, 2020. Accordingly, providers who participate in the EBB Program are only eligible to receive reimbursement for offerings that were available on and include the same terms as those available as of December 1, 2020.”

Cause: Consistent with 47 CFR § 54.1608 (e), FCC and USAC rely on Providers to certify compliance with EBBP rules, requirements, and determine eligibility for program reimbursements. FCC and USAC’s reliance on Provider’s self-certification resulted in improper EBBP reimbursements because Provider information was not validated prior to the reimbursement approval process. Specifically, once FCC and USAC approved the initial election notice, they did not have controls, other than self-certification, to ensure that Providers only offered and were reimbursed for approved plans and connected devices. In addition, when household eligibility could not be verified through NV processes, FCC and USAC relied on information provided in the subscriber’s application for EBBP instead of verifying eligibility based on supporting documentation.

Effect: The risk of making improper reimbursements for devices/services that did not meet EBBP requirements or at rates not previously approved is increased if providers do not maintain proper documentation or if Providers are allowed to self-certify, without additional controls over reimbursements. In addition, improper determination of subscriber eligibility may result in reimbursements on behalf of ineligible subscribers and less funding for the intended beneficiaries of the EBBP.

Recommendations: Kearney recommends that the FCC work with USAC to perform the following:

1. Increase the scrutiny of the manual verification process, including implementing a multilevel review process that includes reviews of the supporting documentation in comparison to the application.
2. Using results from the Payment Integrity Program, establish controls to ensure that the self-certifications provided by the Providers are validated by reviewing corroborating documentation that evidences an eligible claim before approving the payments. Examples are household eligibility proof, invoices for recurring service/connected devices, Provider’s terms and conditions of service to determine there are no

contradictions to program rules, and the election notice details or any other documentation that supports the claim for reimbursement.

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 scope of this EBBP performance audit is the EBBP program reimbursements occurring during the three-month period of June, July, and August of FY 2021. Kearney executed planning, testing, and reporting over the entity's EBBP reimbursements and related internal controls. We conducted this performance audit in accordance with the GAGAS. These standards require that Kearney plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objective. To obtain background information, Kearney reviewed the Federal laws, regulations, FCC rules, and policy and guidance related to the use of EBBP.

Due to ongoing investigations of one Provider, the OIG requested that we exclude that provider from certain testing procedures. We determined that due to this limitation, we were unable to accurately assess the excluded Provider's compliance with the EBBP requirements. The Provider was removed from the population prior to selecting a sample.

Kearney was asked to perform testing on documents pertaining to recurring service and connected devices that FCC and the USAC did not have access to. Specifically, we requested monthly subscriber invoices and usage information from the Providers. Because we did not have mechanisms in place to contact Providers, USAC performed outreach by acting as the audit liaison. Due to misunderstandings on the responsibilities that USAC and Kearney would each take on communicating with the Providers, some Provided by Client (PBC) requests were not timely relayed to the Providers. This resulted in audit documentation being delivered after the requested due date.

Other than the limitations noted, Kearney was able to execute procedures to support the conclusions related to the EBBP objectives and support our conclusions regarding internal controls and compliance.

Methodology and Work Performed

Kearney's performance audit technical approach entails gaining an understanding of the process set forth by the FCC during implementation of the EBBP. We performed walkthroughs, control evaluations, testing, and analysis to conclude on the audit objectives and report the results in a comprehensive final report. Kearney regularly reviewed and, if appropriate, revised the audit strategy with the approval of the FCC OIG to ensure work was performed efficiently and effectively. The methodology of the audit included:

- Obtained an understanding of any appropriations law requirements, such as Section 904, *Benefit for Broadband Service During Emergency Period Relating to COVID-19*, of the Consolidated Appropriations Act of 2021
- Obtained an understanding of the components of internal control and performed a risk assessment to determine the level of control risk relevant to the audit

objectives

- Assessed the FCC's internal controls over data management, collection, reporting, and processes used to report program data. Gathered an understanding of information technology process and controls considered significant to the subject audit
- Considered any EBBP goals and objectives presented in the *Management's Discussion and Analysis* (MD&A) section of the Agency Financial Report (AFR), as well as any EBBP-related information presented in the FCC strategic plan
- Selected samples and performed testing over entity controls.

Kearney performed testing to determine whether the FCC had adequate controls in place to reimburse Providers for EBBP outlays incurred based on participation of subscribers that met the FCC's program eligibility requirements. The controls tested included verifying that Providers received approval from FCC before accepting them into the EBBP. Kearney also verified that Providers submitted an election notice to USAC. We verified that election notices included a description of internet offerings and service rates established by December 1, 2020, as required by Section 904 of Public Law (PL) 116-260. We also verified that connected devices included in the election notices were appropriate based on Section 904 of PL 116-260. The decision as to whether the services and devices are appropriate resides with USAC. If denied on the first election or if a Provider wished to change or expand their covered devices and services, then appropriate election notices were submitted by the Providers. In the cases where Providers submitted multiple notices, we reviewed all applicable election notices.

Kearney also conducted control testing to determine whether the FCC implemented effective internal controls that provide assurance that subscribers participation in the program met the household eligibility program requirements, payments made to eligible Providers were for eligible expenses in order to reduce improper payment and prevent fraud, waste, and abuse in the EBB program and that USAC appropriately verified that Providers complied with the requirements of Section 904 of the Appropriations Act. Specifically, we confirmed that FCC ensured that Providers verified the household's eligibility through either the NV or AVP. In addition, we verified that existing Lifeline subscribers had undergone the most recent recertification to maintain eligibility. Kearney reviewed the invoices for the connected devices to verify that an eligible household subscriber paid at least \$10, but not more than \$50. We also verified that eligible households that previously received broadband services from a Provider were not subject to a mandatory waiting period after December 27, 2020. Kearney reviewed monthly invoices for sampled broadband services to verify that the amount charged did not exceed the standard rates as of December 1, 2020, as stated on the approved election notice. We also reviewed the service invoices to verify that eligible households were not charged if the standard rate is less than the EBBP reimbursement or if the standard rate was higher, then the household was not charged more than the difference between the standard rate and the EBB program reimbursement. In cases where the subscriber's monthly recurring charges were zero, we were only able to view usage records. Additionally, Kearney verified that subscribers had not been charged an early termination fee in instances where a contract was required to obtain internet service offering but was later terminated. Lastly, we reviewed documentation to verify that the Provider had maintained evidence of subscriber usage during the period of reimbursement. Another acceptable method to confirm usage, as outlined by 47 CFR § 54.407(c)(2), allowed the Provider to provide outreach to the household to confirm their continued desire to participate in EBBP. This method was acceptable if a subscriber's entire service bill was paid by the EBBP.

Data Reliability

Kearney obtained certified claims from the LCS. Claims for each data month were to be certified by the 15th day of the following month. Early in the program, the FCC granted waivers to several Providers, allowing them longer periods to certify. This resulted in some payment files, including the May 2021 data month, which was outside of our scope. Further, USAC, at the direction of the FCC, withheld some certified claims until directed by the FCC to release those payments. Additionally, USAC withheld some certified claims because the subscribers were flagged as deceased or due to issues with the Provider accounts.

Kearney performed a reconciliation of the certified claims from LCS to the payment files that were sent to the FCC through a flat file submission. Payments without errors were subsequently recorded in the FCC General Ledger and Kearney noted a small variance of \$1,723,708. This variance represented less than 1% of the total testing population. Variances were attributed to USAC's processes for withholding certain payments that were flagged for further review. Payment flags were either due to missing or incorrect vendor information, identification of deceased subscribers, or disputes resulting from multiple Providers claiming the same subscriber. We determined that the LCS data was sufficiently reliable for sampling.

Sampling Methodology

Kearney's sampling objective was to select a sample of EBBP reimbursements claimed for the data months of June, July, and August 2021. We selected a random sample and performed attribute testing over controls to determine whether the FCC complied with Section 904 of the Consolidated Appropriations Act of 2021. Attribute sampling allows an auditor to select a small number of transactions to come up with assumptions that represent the full population.

Kearney obtained the population of claims certified for the data months of June, July, and August 2021 and made exclusions for invalid and withheld claims. The exclusions are noted in *Exhibit 1* below. We determined the sample size using Cochran's formula for sample size. Cochran's formula is used to calculate the sample size in large populations given a precise level of precision at a determined confidence level for attribute testing. Based on a precision of 5% and a confidence level of 95%, 385 EBBP expenses were selected.

We evaluated the results and determined the error in the population when considering 1) whether FCC implemented effective internal controls to reduce improper payments and 2) whether FCC implemented effective internal controls to ensure Providers compliance with the requirements of Section 904 to be 11.9% with a margin of error of +/- 3.2%. Further, while the error in the population when considering if controls were effective to determine household eligibility was within an acceptable range, we noted that of the 12 manually reviewed eligibility determinations, 25% were incorrect. As the manually reviewed eligibility documentation is a separate subset of controls, we determined that that the deviation rate indicated a control failure.

Exhibit 1: Sampling Population After Exclusions

Description	Amount (in dollars)
Certified Claims July-August	\$ 527,163,475
Exclude Invalid and Withheld Claims	\$ (78,590,775)
Total After Exclusions	\$ 448,572,700

Additionally, Kearney performed an analytic procedure to ensure all reimbursements provided by USAC in the months of June, July, and August 2021 were to Providers that were previously approved to participate in the EBBP. We noted no errors as a result of the procedure.

Work Related to Internal Controls

The FCC is responsible for the design, implementation, and operating effectiveness of internal controls related to the EBBP. During the audit, Kearney considered a number of factors, including the subject matter of the project to determine whether internal controls were significant to the audit. Based on its consideration, we determined that the internal controls were significant for this audit. Kearney then considered the components of internal control and the underlying principles included in the *Standards for Internal Control in the Federal Government* (Green Book) to identify internal controls that were significant to the audit objectives. Considering internal controls in the context of a comprehensive internal control framework can help auditors determine whether underlying internal control deficiencies exist.

Kearney conducted meetings to identify controls in place to address audit risks. We also leveraged information gained from the financial statement audit we performed for both an understanding of EBBP and supporting financial controls.

Kearney obtained an understanding of internal controls, including information systems controls, relevant to the audit objective through completing walkthroughs and observations of internal controls. We determined that the FCC lacks proper controls to verify Providers have complied with Section 904 of the Consolidated Appropriations Act of 2021. Kearney additionally tested some controls performed by Providers, which are required for the internal controls of the FCC as outlined in Consolidated Appropriations Act of 2021 (i.e., that documentation was kept: proving subscriber eligibility in the case of AVP, usage information in the case of subscribers not having any expenses with services rendered, and that service/devices were appropriate and priced at approved levels).

Kearney performed procedures to assess the design, implementation, and operating effectiveness of key internal controls. Specifically, we performed the following procedures:

- Determined if sampled Providers had proper approval from the FCC or were already Providers prior to approval
- Determined if sampled subscribers that were approved via AVP or manually had proper documentation
- Determined if sampled Providers requesting reimbursement provided evidence of offering discounted devices to subscribers at an approved rate

- Determined if sampled Providers maintained evidence of subscriber usage for those that did not pay for service rendered and received the EBBP discount or other equivalent documentation
- Determined if sampled Providers charged subscribers an early termination fee
- Determined if sampled subscribers were subject to a mandatory waiting period per Provider rules.

Although our audit identified several internal control deficiencies, the FCC implemented the Payment Integrity Program for the EBBP starting in September 2021, which was after the scope of our audit. The Payment Integrity Program is designed to facilitate program compliance and consists of eleven focus areas (i.e., Oversubscribed Address, Alternate Verification Process, Representative Accountability Database, Price Manipulation, Tribal Validation, Non-Usage, Community Eligibility Provision [CEP]/Free and Reduced Lunch, Deceased Check, Transfers, Pell Grant, and Covered Devices). The Program Integrity Plan included a detailed list of procedures to be completed monthly. USAC shares the results of these monthly procedures and recommendations related to issues with the WCB and the Office of the Managing Director.

APPENDIX B – MANAGEMENT’S VIEWS ON CONCLUSIONS AND FINDINGS

United States Government
Federal Communications Commission
Office of Managing Director
MEMORANDUM

DATE: June 2, 2022
TO: David L. Hunt, Inspector General
FROM: Mark Stephens, Managing Director
SUBJECT: Management’s Response to Inspector General’s Performance Audit of the Federal Communications Commission’s Emergency Broadband Benefit Program (21-AUD-10-01)

For the reasons stated below and previously shared during the engagement, the Wireline Competition Bureau and the Office of Managing Director partially concur with the findings and recommendations.

Summary

As noted in the audit report, the results of this audit did not identify any instances of improper payments or otherwise ineligible payments within the identified conditions. While the audit report noted that the FCC did not have “effective controls,” the lack of improper payments identified and low error rate appear to support that there are effective controls in place. We strive to maintain a strong internal control environment and continuously work to identify opportunities to strengthen National Verifier processes. As part of this commitment, a multi-level Quality Assurance (QA) review process for household eligibility determinations made by manual documentation review was implemented in August 2021. We will continue to evaluate and implement opportunities to strengthen National Verifier processes.

Detailed Response

Use of Election Notice Information to Validate Reimbursements. We disagree that the EBB Program lacked adequate controls to prevent ineligible payments as the audit misapplies the Program’s rules regarding election notices and reimbursable internet service offerings. The filing of service plan and connected device information in the election notice was designed to confirm participating provider eligibility requirements. Specifically, the Order, [FCC 21-29](#), explains that requirement for reimbursement of discounted internet service offerings on the same terms as service offerings available on 12/1/2020 impacts provider eligibility to participate in the Program. FCC 21-29, para. 13. Accordingly internet service plan information was required in the election notice to demonstrate provider eligibility by having reimbursable service plans as of 12/1/2020. FCC 21-29, paras. 13, 22(f). The Order further explains that USAC was processing election notices to provide the necessary system

access to administer the Program and did not provide USAC authority to “approve” particular service plans or connected device offerings. FCC 21-29, paras. 21, 24. Accordingly, when auditing reimbursement claims the Commission and USAC begin the inquiry with the election notice information where appropriate, but additionally request documentation from the provider to substantiate the claim. This is consistent with the Order’s and rule’s requirements for filing reimbursement and retaining documentation. FCC 21-29, paras. 93, 97; 47 CFR § 54.1611 (requiring documentation to be retained for six years to demonstrate both household eligibility and reimbursement claims). It is also relevant that providers were permitted to update 12/1/2020 service plans to include free enhancements in quality so long as it did not impact price. FCC 21-29, para. 72.

Additionally, the audit’s sole reliance on validating the dollar amount of reimbursements based on information submitted during the election notice process did not identify any instance in which the actual reimbursement claim in the sample was improper or otherwise impacted the total amount a service provider received. The identified instances within the sample all received reimbursements that were less than the service plan rate or otherwise capped by the top discount amounts for monthly service plans or connected devices. As a result, the identified instances when matched to documentation maintained to demonstrate the reimbursement claim, like subscriber bills, by the service provider would likely be proper and compliant with the Program’s rules.

For these reasons, the misapplication of the election notice information, the lack of consideration for the other program requirements including the retention of documentation by service providers to demonstrate reimbursement claims, and the identified conditions not demonstrating actual improper or otherwise ineligible reimbursement payments, we disagree that the EBB Program lacked adequate controls to prevent ineligible payments.

Steps to Increase Scrutiny of Manual Household Eligibility Determinations Have Already Been Taken. The Wireline Competition Bureau and Office of Managing Director concur with the finding regarding the identified manual household eligibility determinations, specifically implementing a multilevel review process for supporting documentation to demonstrate household eligibility. In addition, for the EBB Program and its successor, the Affordable Connectivity Program (ACP), we have already taken steps to implement the recommendation to increase scrutiny and improve outcomes of manual household eligibility determinations. The audit period for this audit was June, July, and August 2021. In August 2021, USAC implemented a multi-level review process for household eligibility determinations made by manual documentation review. Specifically, USAC began sampling manual verifications to ensure accurate decisions were made. This quality assurance review process was performed during the remainder of the EBB Program and continues today for ACP. The QA team performs both random reviews as well as “red flag” reviews based on common errors. When errors are identified, USAC takes the opportunity to train and coach staff. In addition, any inappropriate decisions identified through QA are reversed. If the consumer is not yet enrolled in the program, they will receive notice that they need to submit new documentation in order to qualify. If they are already enrolled in the program, USAC reaches out to the subscriber and gives them 30 days to complete a qualified NV application. If the subscriber does not do so, USAC de-enrolls them from the program.

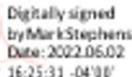
As a result, we believe that the current QA process reduces the risk of enrolling ineligible subscribers to reasonable levels. In light of this recommendation, we will evaluate if any additional steps or improvements are necessary to strength the National Verifier’s processes regarding manual household eligibility determinations.

The Cost of Validating Reimbursements at the Time of Payment Exceed the Benefits. The Audit Report recommends the Commission “[e]stablish controls to ensure that the self-certifications provided by the Providers are validated by reviewing corroborating documentation that evidences an eligible claim before approving the payments. Examples are household eligibility proof, invoices for recurring service/connected devices, Provider’s terms and conditions of service to determine there are no contradictions to program rules, and the election notice details or any other documentation that supports the claim for reimbursement.” There are more than 12 million households in the Affordable Connectivity Program, the successor to the EBB Program, and more than 1,200 service providers authorized to participate in the Affordable Connectivity Program. The administrative cost to timely validate payments prior to issuing disbursements would greatly exceed the benefits of preventing ineligible payment due to the amount of information that would have to be reviewed and the harm caused by delaying timely payments to service providers. Each payment to a service provider contains as little as tens of households and as many as millions. Thus, validating the payment would require individual documentation review for each household contained in each service provider claim. This review would have to be repeated for the hundreds of service providers within the program. Not only would the administrative cost be significant, the resulting delay of payments to providers would cause financial stress and likely result in providers not participating in the program. This would harm the eligible households by reducing service provider choice or even leave eligible households without a participating provider in their area.

Additionally, the program already has other controls that accomplish similar benefits of reducing ineligible payments. First, the National Verifier already confirms household eligibility prior to a household’s enrollment in the program and therefore prior to a service provider receiving payment for that household. Second, the program conducts both payment quality assurance reviews and independent audits that validate a statistically-significant amount of reimbursements payments as suggested in the recommendation. Third, the program contains many certifications that are enforceable against service providers to recover improper or ineligible claims when identified. As a result of these actions, we believe these actions adequately control for the risk of ineligible payments. The results of this audit support that position by not identifying any instances of improper payments or otherwise ineligible payments within the identified conditions.

For these reasons, we believe the resulting recommendation of validating payments prior to disbursement greatly increases administrative costs while not similarly increasing benefits to the controls of the program. However, as the successor program, ACP, continues to make system changes and improvements to implement the requirements of the statute and the Commission’s Order, we will continue to evaluate the program’s controls. Specifically, as additional information is collected regarding monthly service plans and connected devices, we will investigate how to incorporate this information into the ACP’s controls. Further, we will review the identified conditions regarding missing or improper documentation and determine if additional actions are necessary, including recovery of funds.

Mark
Stephens



Digitally signed
by Mark Stephens
Date: 2022.06.02
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Mark Stephens
Managing Director

APPENDIX C – KEARNEY’S EVALUATION OF MANAGEMENT’S COMMENTS

Kearney’s finding is not concluding that the payments made to Providers were for improper amounts; but instead, stating that the risk for making payments to ineligible subscribers is increased. Further, we concur that election notices are used to confirm participating provider eligibility requirements; however, the FCC does not have effective controls in place to verify the invoices for supporting service and device rates match the offerings on the approved election notices as of December 1, 2020, which does not align with FCC 21-29 paragraph 72. Specifically, the FCC’s Order’s and rule’s requirements in paragraph 72 state, “Internet service offering is defined as broadband internet access service provided by such provider to a household, offered in the same manner, and on the same terms, as described in any of such provider’s offerings for broadband internet access service to such household, as on December 1, 2020. Accordingly, providers who participate in the EBB Program are only eligible to receive reimbursement for offerings that were available on and include the same terms as those available as of December 1, 2020.” Additionally, the FCC Wireline Competition Bureau and Office of Managing Director concur with the identified manual household eligibility determinations finding and have communicated to us the actions taken to address our recommendation.

APPENDIX D – ABBREVIATIONS AND ACRONYMS

Acronym	Definition
1996 Act	Telecommunication Act of 1996
ACP	Affordable Connectivity Program
Act	Communications Act of 1934
AFR	Agency Financial Report
AVP	Alternative Verification Procedure
CEP	Community Eligibility Provision
CFR	Code of Federal Regulations
COVID-19	Coronavirus Disease 2019
EBBP	Emergency Broadband Benefits Program
ETC	Eligible Telecommunications Carrier
FCC	Federal Communications Commission
FPHA	Federal Public Housing Assistance
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GL	General Ledger
Green Book	<i>Standards for Internal Control in the Federal Government</i>
HHS	Department of Health and Human Services
Kearney	Kearney & Company, P.C.
LCS	Lifeline Claims System
MD&A	Management’s Discussion and Analysis
National Verifier	Lifeline National Eligibility Verifier
NLAD	National Lifeline Accountability Database
NV	National Verifier
OIG	Office of Inspector General
PBC	Provided by Client
PL	Public Law
PQA	Payment Quality Assurance
Provider(s)	Participating Providers
SNAP	Supplemental Nutrition Assistance Program
SSI	Supplemental Security Income
Treasury	Department of the Treasury
TRS	Telecommunications Relay Service
USAC	Universal Service Administrative Company
USF	Universal Service Fund
WCB	Wireline Competition Bureau

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