

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

FY 2016

Lani Eko & Company, CPAs, PLLC

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
BACKGROUND	2
RESULTS OF AUDIT	4
APPENDIX A – OBJECTIVES, SCOPE AND METHODOLOGY	6
APPENDIX B – OTHER MATTER	8
APPENDIX C – MANAGEMENT’S RESPONSE.....	9
APPENDIX D – LIST OF ACRONYMS.....	11

EXECUTIVE SUMMARY

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

We determined that the FCC was compliant with IPERIA in accordance with criteria defined in OMB Memorandum M-15-02 Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit covered the period October 1, 2015 through September 30, 2016. The result of our audit is summarized below.

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

BACKGROUND

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

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

The FCC has eight programs that make disbursements under the direction of the FCC and its Administrators.

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

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

Elimination and Recovery Improvement Act (IPERIA) of 2012. The Recovery Auditing Act was, generally, repealed by these amendments to OMB Circular A-123.

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

The FCC had previously identified the following four programs as susceptible to significant improper payments: USF-HC, USF-S&L, USF-LL and TRS. In FY 2016, the FCC performed risk assessments for the remaining four programs (USF-RHC, USF-Admin, NANP and FCC-OE). Based on the risk assessment, the FCC concluded that the USF-RHC, USF-Admin, NANP and FCC-OE are not susceptible to significant improper payments. The FCC utilized OMB-approved alternative sampling methodologies¹ to obtain statistically valid estimates of the improper payments for USF-HC, USF-LL and TRS. USF-S&L did not require alternative sampling method. FCC's improper payment estimate for the TRS was zero. The FCC reported its efforts in reducing and recapturing improper payments for all USF and TRS programs, payment recapture audits for all the FCC programs, and improper payment corrective actions for USF-LL and USF-S&L.

¹ OMB Memorandum, M-15-02 Part I.A.14

RESULTS OF AUDIT

Based on our audit, we determined that the FCC is compliant with the requirements of IPERIA. Additionally, our audit identified one condition that we reported as “Other Matter” because it did not represent a noncompliance with IPERIA. We assessed the FCC’s compliance with IPERIA using the six criteria in the OMB Circular A-123, Appendix C. The results of our assessment are presented below:

Criteria No. 1: Did the FCC publish an Annual Financial Report (AFR) for the most recent fiscal year and post that report and any accompanying materials required by OMB on the agency website.

Yes. The FCC published the IPERIA Reporting Details section of the AFR by November 15, 2016 as required by OMB. The complete FY 2016 AFR and accompanying material was published and posted on its website on March 1, 2017, as required by OMB, in compliance with the IPERIA. According to FCC management, OMB approved the FCC request for an extension to publish the FY 2016 AFR. OMB granted the extension based on legal concerns associated with disclosures of confidential information on the ongoing broadcast incentive forward auction. However, OMB did not extend the publishing deadline of November 15, 2016 for the FCC’s improper payment reporting section of the AFR.

Criteria No. 2: Did the FCC conduct a program-specific risk assessment for each program or activity (if required)?

Yes. The FCC conducted a risk assessment for four programs, USF-RHC, USF-Admin, NANP and FCC-OE Programs, that were not previously identified as susceptible to significant improper payments. The results of the risk assessment confirmed that these four programs are not susceptible to significant improper payments. The FCC has previously identified USF-HC, USF-S&L, USF-LL, and TRS programs as susceptible to significant improper payments.

Criteria No. 3: Did the FCC publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required)?

Yes. The FCC published improper payments estimates using an OMB approved alternative methodology for the four programs identified as susceptible to significant improper payments.

Criteria No. 4: Did the FCC publish programmatic corrective action plans in the AFR (if required)?

Yes. The FCC published programmatic corrective action plans for USF-S&L and USF-LL programs. The corrective action plans detailed the FCC's efforts to address the root causes of improper payments in order to mitigate or eliminate future improper payments in USF-S&L and USF-LL programs.

Criteria No. 5: Did the FCC publish and is it meeting annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable)?

Yes. The FCC complied with the requirements of Criteria No. 5. The FCC met the reduction targets for three of the four programs identified as susceptible to significant improper payments and estimated for improper payments. The FCC disclosed that a baseline error rate has not been established for the USF-LL program. Please refer to Appendix B for information related to Criteria No. 5.

Criteria No. 6: Did the FCC report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR.

Yes. For each of the four programs identified as susceptible to significant improper payments, the FCC reported an improper payment rate of less than 10 percent. The reported improper payment rates for FY 2016 were as follows: USF-HC, 0.03%; USF-S&L, 5.70%; USF-LL, 2.93%; and TRS, 0.00%.

In addition, we evaluated the accuracy and completeness of the FCC's IPERIA reporting, including the sampling methodology used by the statisticians. There were no exceptions noted.

APPENDIX A – OBJECTIVES, SCOPE AND METHODOLOGY

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

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

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

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit covered the period October 1, 2015 through September 30, 2016.

In order to achieve the objectives, we performed audit procedures as deemed appropriate including:

- Obtained and reviewed significant provisions of laws and regulations applicable to IPERIA.
- Reviewed Government Accountability Office reports on IPERIA and related challenges faced by federal agencies in implementing IPERIA, in order to update our understanding and awareness of compliance issues with IPERIA.

- Made inquiries with appropriate FCC officials and obtained documentation to understand: how FCC implemented the provisions of IPERIA; significant programs/activities; guidance provided in the FCC's directives and policies and procedures manuals; documentation maintained to support IPERIA data; information reported on the AFR; and FCC's oversight over the calculation of improper payments.
- Reviewed previous years' reports to understand the FCC's IPERIA program and processes, challenges, and focus areas for process improvement and reporting.
- Reviewed FCC's effort in improving the IPERIA process by following up on FCC's implementation of prior year audit recommendations.
- Reviewed the FCC's FY 2016 AFR, *IPERIA Reporting Details* for compliance with revised requirements for reporting IPERIA, as set forth in OMB Circular No. A-136, *Financial Reporting Requirements*.
- Reviewed the latest risk assessments for all programs for compliance with OMB Memorandum M-15-02 risk assessment requirements.
- Reviewed sampling plans, sampling results and the FCC's correspondences with the OMB.
- Validated the improper payment rate calculation methodology and the amounts reported for the TRS program.
- Reviewed the AFR, *IPERIA Reporting Detail*, and obtained additional supporting documentation to evaluate FCC's effort in preventing, reducing, and recovering improper payments.
- Reviewed FCC's processes for identifying and reporting of recaptures of improper payments.
- Reviewed, recalculated, and agreed with key figures and information in the AFR, *IPERIA Reporting Details* to supporting documentations excluding USF-HC, USF-S&L and USF-Lifeline.
- Reviewed the FCC's IPERIA reporting quality control procedures and supporting documentation.

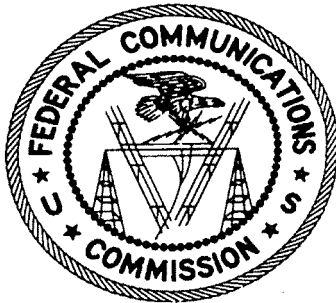
APPENDIX B – OTHER MATTER

The FCC did not meet improper payments reduction target for the USF-LL Program in FY 2016. Because the FCC has not established an improper payment rate baseline for the USF-LL Program, the FCC was not in violation of IPERIA. OMB does not expect a program susceptible to significant improper payments to publish a reduction target until an improper payment rate baseline has been established and reported. The FCC identified the USF-LL Program as susceptible to significant improper payments in FY 2013. The FCC’s management informed us that an improper payment rate baseline for USF-LL Program would be established and published in FY 2017.

The USF-LL Program projected FY 2016 improper payment rate was 0.45 percent; the FY 2016 estimated improper payments rate was 2.93 percent or an increase of 2.48 percent. According to OMB, a program will have met a reduction target if the improper payment rate for that program in the current year falls within plus or minus 0.1 percentage point of the reduction target set in the previous year’s AFR. See table below for additional details:

FY 2015 CY + 1 vs. FY 2016 CY						
Source: AFR Table 1 (FY 2015 & 2016)						
(\$ in millions)	FY 2015 CY+1 (projected)		FY 2016 CY (estimated)		Increase in IP %	Increase in IP \$
	IP %	IP \$	IP %	IP \$		
USF-LL	0.45%	\$7.31	2.93%	\$40.65	2.48%	\$33.34

APPENDIX C – MANAGEMENT’S RESPONSE



UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION

Office of Managing Director

MEMORANDUM

DATE: May 3, 2017

TO: David L. Hunt, Inspector General

FROM: Mark Stephens, Managing Director

SUBJECT: Management's Response to Independent Auditor's Report on the Federal Communications Commission's Improper Payments Elimination and Recovery Improvement Act Reporting for Fiscal Year (FY) 2016

Thank you for the opportunity to respond to the draft report from the Office of Inspector General (OIG) to the Managing Director, regarding the Federal Communications Commission's (FCC or Commission) compliance with the requirements described in the Office of Management and Budget (OMB) *Memorandum M-15-02, Appendix C to OMB Circular No. A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, for the year ending September 30, 2016. We appreciate the efforts of your team and the independent auditors, Lani Eko & Company, CPAs, PLLC, to work with the Commission on this audit. The Commission worked closely with your office and the independent auditors to provide necessary and timely information to facilitate an efficient audit process.

We are pleased that the auditors did not identify any instances of noncompliance by the FCC with the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), P.L. No. 112-248. The Commission works diligently to comply with the requirements of the law, to adhere to OMB's guidance, and to prevent and reduce improper payments in the Commission's programs.

We recognize and appreciate the independent auditors' observation in the "Other Matter" section of the audit report. The Commission is in the process of working with USAC to establish a baseline error rate in the Universal Service Fund's (USF) Lifeline program for the FY 2017 reporting cycle. The FCC has worked with USAC to add new testing procedures to its payment quality assurance program for Lifeline for the 2017 sampling and testing process. The new testing procedures will allow the FCC to report a baseline error rate for the Lifeline program during the 2017 reporting cycle.

The Commission and its staff welcome the questions and feedback that the OIG and its auditors provided to the FCC during the FY 2016 audit cycle. We look forward to updating the OIG and its auditors on the

FCC's progress in establishing a baseline error rate for the Lifeline program and to continuing to strengthen the FCC's controls around improper payments testing, reporting, prevention, reduction, and recovery.

A handwritten signature in black ink, appearing to read 'Mark Stephens', enclosed within a large, horizontal, hand-drawn oval.

Mark Stephens
Managing Director

APPENDIX D – LIST OF ACRONYMS

AFR	Agency Financial Report
FCC	Federal Communications Commission
FY	Fiscal Year
IPERA	Improper Payments Elimination and Recovery Act
NANP	North American Numbering Plan
OE	Operating Expenses
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
TRS	Telecommunications Relay Service
USF	Universal Service Fund
USF-LL	Universal Service Fund – Lifeline (formerly Low Income)
USF-HC	Universal Service Fund - High Cost
USF- S&L	Universal Service Fund - Schools and Libraries