

Oral Statement of
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Before the
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
of the
COMMITTEE ON ENERGY AND COMMERCE
UNITED STATES HOUSE OF REPRESENTATIVES

On
Guarding Against Waste, Fraud and Abuse in Post-Katrina
Relief and Recovery: Plans of the Inspectors General

September 28, 2005

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to come before you today to discuss the FCC's plans for participation in Hurricane Katrina rebuilding activities and our plans to provide oversight of these activities.

FCC Use of the USF in Katrina Rebuilding Support

The FCC has announced it will use the four existing support mechanisms of the USF to provide \$211 to Katrina recovery assistance, as follows:

- The Low Income program will be used to provide evacuees and persons in the affected areas still without telephone service wireless handsets and a package of 300 minutes. This fund will also be used to provide support for reconnecting consumers as the area is rebuilt. The FCC has estimated this will amount to \$51 million of Low Income support.
- The Rural Health Care program will allow public and for-profit health care providers to apply for assistance with the cost of telecommunications services under relaxed participation requirements. The FCC has estimated this will amount to \$28 million of Rural Health Care support.
- The Schools and Libraries program (or E-rate) will be used to reconnect schools and libraries in the affected areas to telecommunication and network services. Using a variety of program rule waivers, the FCC will be able to authorize an amount estimated to range from \$96 million to \$132 million in E-rate funds for the 600 schools and libraries hit by the hurricane.

- The High Cost program will allow greater flexibility for telephone carriers to use high cost funds to prioritize facilities affected by Katrina.

Additionally, the Commission has undertaken several actions that allow the telecommunications industry regulatory flexibility in rebuilding efforts.

Audit Oversight of the FCC's Katrina-related Efforts

I applaud the Commission's efforts to be a positive force in the post-Katrina recovery, and I am supportive of all that this agency can do to assist. However, I am mindful that in my role as Inspector general, I am responsible for ensuring that these relief efforts do not present unacceptable risks to the agency and the taxpayer's dollar. I would like to discuss my plans for oversight of the FCC's Katrina-related efforts.

The myriad of rule waivers and special temporary authorities the Commission is granting has only a small impact on audits conducted by my office. Our primary audit role in these functions is to ensure that adequate internal controls are in place and operating effectively to ensure regulatory compliance and that financial cost accumulation and reporting are current, accurate and complete. My financial statement audits for FY 2005 and 2006 are the best tools I have available to make this assessment. My staff is coordinating with our contracted independent public auditors to ensure that testing under our financial statement audit will address any concerns.

OIG Oversight of the USF Katrina Funding

We have testified before this Subcommittee on three occasions on the special risks this program carries and my concerns about the fund. I will discuss the four parts of the USF, our efforts to provide oversight of the fund, and new concerns as a result of the Hurricane Katrina efforts.

The FCC has issued an Order on September 21, 2005, that details several rule waivers for USF recipients in the hurricane-affected area. This Order allows State Commissions, carriers, and program beneficiaries to postpone filing certain USF forms, payments and data for a period of up to one hundred and fifty (150) days. At this time I have not been advised as to whether these waivers represent all of the actions needed to implement the Commission's USF Katrina relief or if more rule waivers will be forthcoming.

The E-rate program has expended \$10 billion since its inception in 1998. We have identified specific concerns about the E-rate program that will have a direct impact the disaster assistance funding. These programmatic weaknesses will be compounded by the confusion of overworked school and library administrators trying to rebuild shattered information systems under less than ideal circumstances. Additionally, I fear these rule waivers or exemptions will be taken advantage of by unscrupulous E-rate service providers that federal criminal investigations have turned up time and again.

Our auditors will incorporate appropriate steps in the audit work programs currently in use to ensure the Katrina rule waivers are considered in audit planning and fieldwork. On a less positive note, I do not have resources that approach being adequate to provide effective oversight of the E-rate program. However, we have worked and will continue to work in close coordination with USAC internal auditors, independent auditors under contract to USAC, and other federal auditors conducting E-rate audits under interagency memoranda of understanding. We will ensure that the special risks that the FCC's proposed rules bring are addressed in the conduct of future audits.

The other large USF program is the High Cost program. This program provides support to telecommunication carriers to ensure that consumers in all regions of the United States have access to and pay rates for telecommunications services that are reasonably comparable to those services provided and rates paid in urban areas. This program has averaged over \$2.5 billion in annual expenditures and my office is aware that we need to expand our oversight in this area. However, we have not had the resources to establish an effective oversight program. At the present, we are assessing risks in the High Cost program in anticipation of being able to institute an audit program in the future and will ensure our plans address any considerations brought by the Katrina relief.

I find the proposed Low Income Katrina-related support very interesting. The Low Income program assists eligible low-income consumers to establish and maintain telephone service by discounting services provided by local telephone companies. To the best of my knowledge, this support mechanism has not been used in the past to provide

wireless handsets and free minutes of service in the past. I am not yet fully briefed on how the Commission intends to implement the intended hurricane relief, and I will give careful consideration as to what sort of oversight to bring to this unique solution. I anticipate that, at a minimum, I will direct my staff to perform an audit of how eligibility for this help is determined and verified and measures the Commission has taken to ensure the products provided are in the hands of the people who need the help.

The Rural Health Care program is the smallest USF program, having disbursed \$38 million since 1999. The FCC's proposed \$28 million of disaster assistance to emergency health care providers in the affected region will represent a dramatic increase in Rural Health Care expenditures. We are still assessing the requirement for oversight represented by the additional disaster relief funds.

I would like to make an observation about the overall risk to the USF as represented by the Katrina devastation. Since the inception of the E-rate program in 1998, over \$184 million has been expended in Louisiana, and over \$79 million in New Orleans alone. As well as E-rate funds, the High Cost program has expended \$555 million in the state of Louisiana since 1998. Rebuilding the shattered infrastructure is critical. While the FCC's authorization of additional funding will go a long way in restoring these services for the citizens affected by Hurricane Katrina, the area will require a higher level of support for years before it reaches a level of technological capability that it had before the hurricane. The financial needs will be huge and the risk of misspent funds must be taken into account. This risk is certain to be impacted by errors on the part of public and

private participants who are overworked and stressed. Further, you can be sure this level of funding will attract the less honest service providers to the area who might hope to take advantage of the additional funds being expended under relaxed rules.

Conclusion

The Office of Inspector General has been and remains committed to meeting our responsibility for providing effective independent oversight of the USF. My office will dedicate as much of our resources as possible to ensure that the extra measure of support provided by the Commission is utilized in a manner that best benefits the people whose lives have been so horribly uprooted by Hurricane Katrina.

Thank you. I will be happy to answer any of your questions.