

**FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554**

**OFFICE OF THE
MANAGING DIRECTOR**

February 12, 2010

Mr. Scott Barash
Acting CEO
Universal Service Administrative Company
2000 L Street, NW
Washington, DC 20036

RE: Implementation of the Improper Payments Information Act of 2002 (IPIA) Assessment Program and Companion Audit Program

Dear Mr. Barash:

In a recent Executive Order regarding the Improper Payments Information Act of 2002 (IPIA), President Obama stated that when making payments to program beneficiaries, Federal Government agencies “must make every effort to confirm that the right recipient is receiving the right payment for the right reason at the right time.”¹ President Obama also stated that the Federal Government must intensify “efforts to eliminate payment error, waste, fraud and abuse in the major programs . . . while continuing to ensure that Federal programs serve and provide access to their intended beneficiaries.”²

Consistent with the IPIA Executive Order and guidance from the Office of Management and Budget, we are writing this letter to direct the Universal Service Administrative Company (USAC) to implement both the IPIA assessment program and the compliance audit programs for the Universal Service Fund (USF) outlined in this correspondence. The delineation of responsibilities described herein reflects the view of the Acting Inspector General (the IG or OIG) of the Federal Communications Commission (FCC or Commission) that the responsibility for FCC IPIA assessment program and USF compliance audit program would be better handled elsewhere in the Commission, rather than by the IG. As described below, these responsibilities will be handled by the FCC’s Office of Managing Director (OMD). The programs outlined in this letter have been developed with the benefit of input from and coordination with USAC.

Overview

For the last three years, the FCC’s IG has overseen an audit program that consisted of attestation engagements performed by outside auditors hired by USAC. The purpose of these audits was twofold. They were designed to identify and assess the risk and level of erroneous payments under IPIA as well as to test beneficiary compliance with FCC rules.

¹ Executive Order 13520, § 1 at 1 (Nov. 20, 2009) (IPIA Executive Order).

² *Id.*

Going forward, the FCC, after consultation with OIG, believes two changes would be beneficial. The first change is to separate the two audit objectives into distinct programs – one focused on IPIA assessment and the second on auditing compliance with all four USF programs. The second change is to OIG’s role. OIG will no longer directly conduct or oversee the IPIA assessment program or the compliance audit program. OMD will assume responsibility for directing and overseeing USAC’s implementation of these programs. OIG will adopt “a role more consistent with the traditional role for Inspector Generals under the Inspector General Act of 1978,”³ in which it will conduct oversight of all FCC internal operations, including activities relevant to the USF.

IPIA Assessment Plan

The guidance outlined herein for implementing an IPIA Assessment Plan is consistent with the IPIA oversight conducted by other federal government agencies. In Office of Management and Budget (OMB) Circular A-123, OMB provided agencies guidance on how to carry out several statutory provisions aimed at improving the integrity of government’s payments and the efficiency of its programs and activities, including the IPIA. Specifically, OMB has indicated that agencies should take all necessary steps to ensure the accuracy and integrity of Federal payments and should focus on these three categories of activity: prevention, detection, and recovery. Additionally, OMB cited some practices that have yielded positive results, including data mining, alignment of due diligence and risk oversight, and prioritization of activities to ensure that the results maximize the investment made in oversight. The oversight programs outlined herein are intended to accomplish OMB’s goals of improving accuracy and integrity using the tools that will produce the greatest return on investment.⁴

The IPIA assessment program outlined here was developed with the following objectives:

- Separately cover all four USF programs.
- Measure the accuracy of USAC payments to program applicants.
- Evaluate the eligibility of program applicants who have received payments.
- Include high-level testing of information obtained from program participants.
- Tailor scope of procedures to ensure reasonable cost while meeting IPIA requirements for sample size and precision.

The following table summarizes the draft proposed USF IPIA program we are directing USAC to undertake:

USF Program	# Annual Reviews (sample size)
High Cost	240 (20/month)
Schools and Libraries	720 (60/month)
Low Income	600 (50/month)
Rural Health Care	600 (50/month)
Total⁵	2,160 (180 month)

³ Memorandum from David L. Hunt, Acting Inspector General, to Steven VanRoekel, Managing Director, October 26, 2009.

⁴ Memorandum for Heads of Executive Departments and Agencies, Issuance of Appendix C to OMB Circular A-123, from Rob Portman, Director, OMB (Aug. 10, 2006).

⁵ In conducting the IPIA assessments and the compliance audits USAC must assign a case file number to each individual audit of a contributor or beneficiary.

In its initial review period, we direct USAC to determine the baseline IPIA error rate in accordance with OMB guidance.

Following the initial review period and the delivery of the baseline error rates, USAC shall conduct reviews for each USF Program that are spread out over a 12-month period and performed on a rolling basis. This will ensure ongoing analysis of the most current possible disbursement data. For example, for disbursements made in month 1, sample selections will be made and information requested from beneficiaries during month 2. In month 3, information will be received and IPIA assessments will be performed. Reporting for month 1 disbursements will occur in month 4. Results for an entire 12 month period – which will be the basis for the annual IPIA assessment – should be available within 4 months after the period ends. This process is illustrated in the following table:

	Subsample A	Subsample B	Subsample C
Month 1	Disbursement		
Month 2	Selection, Notification, and Information Request	Disbursement	
Month 3	Receipt of Information and Analysis	Selection, Notification, and Information Request	Disbursement
Month 4	Reporting	Receipt of Information and Analysis	Selection, Notification, and Information Request
Month 5		Reporting	Receipt of Information and Analysis
Month 6			Reporting

Consistent with the requirements of IPIA and the practices of other Federal agencies, this activity is designed to assess rates of improper payments rather than audit compliance with Commission rules. As a result, these procedures are limited to information that can be gathered easily based on a one-time request to beneficiaries. Each assessment will involve analyzing the requested information and will generally require between three to eight hours to complete. These procedures are designed not to depend on interaction with beneficiaries beyond what is necessary to obtain the requested information. We expect that these assessments will be effective in identifying areas of concern in each part of the USF without imposing a substantial expense on the USF program. We urge USAC to be vigilant in implementing its program, but also to be cost-effective with respect to funds expended for purposes of USF administration. Even though the IPIA assessment plan is not an audit process, USAC shall use the audit follow-up procedures set forth in OMB Circular A-50 and FCC Directive 1013.1C., to recover funds that are identified as improper payments. In the event that the IPIA assessments find or suggest any improper payments have been made to program beneficiaries, or finds other irregularities, USAC shall advise those beneficiaries of those findings and provide them with an opportunity to respond and follow established procedures for obtaining repayment.

OMD will work closely with USAC to develop more specific procedures for the IPIA assessment program.

Compliance Audit Program

The program summarized in this section outlines a compliance audit program designed solely to evaluate the compliance of USF beneficiaries and contributors with FCC rules and the Communications Act of 1934, as amended. This compliance audit program was developed with the following objectives:

- Cover all four USF programs and contributors.
- Tailor audit type and scope to program risk elements, size of disbursement, audit timing and other specific factors – i.e., recognizing that the programs and beneficiary types are different, do not adopt a “one size fits all” approach.
- Keep costs reasonable in relation to overall program disbursements, amount disbursed to beneficiary being audited, and USF administrative costs.
- Spread audits throughout the year to smooth workload, improve efficiencies, control costs, reduce unnecessary burdens on beneficiaries, and maintain a pool of trained auditors.
- Retain capability and capacity for targeted and risk-based audits to be conducted as recommended by USAC management, the FCC, and/or law enforcement entities.

The following table summarizes the USF compliance audit program USAC is to implement:

Program / Area	# Audits
High Cost	100
Schools and Libraries	100
Low Income	48
Rural Health Care	32
USF Contributors	50
Targeted / Risk-Based	10
Total	343

The compliance audit program’s estimated costs continue to assume an outsourced staffing model. As previously discussed, however, USAC should consider whether a gradual shift to a primarily in-sourced staffing model would be more cost-effective over time.

OMD will work closely with USAC to develop more specific procedures for the USF compliance audit program.

We expect that USAC will examine the results of the audit and assessment programs outlined herein in a manner that will allow the lessons learned from each to inform and improve the other. In other words, each program should be administered in a manner that best allows the results to be incorporated into future audit and assessment efforts. Thus for example, concerns raised by the IPIA assessments can be the basis for more detailed auditing of program compliance. In addition, we remind USAC that, in the course of its IPIA reviews and compliance audits, if USAC or any of its outside agents discover any irregular behavior that might be indicative of fraud or require referral to the FCC’s OIG and/or Enforcement Bureau (EB), USAC shall continue its referral practices. Nothing in this letter should alter USAC’s practices with respect to working with the OIG and EB to pursue areas of concern.

We urge USAC to be vigilant in implementing its audit program, but also to be cost effective with respect to funds expended for purposes of USF administration. USAC should take steps to ensure that audits of providers and beneficiaries are not unnecessarily burdensome.

During the audit process, USAC shall use the audit follow-up procedures set forth in OMB Circular A-50 and FCC Directive 1013.1C. USAC also shall take steps to implement all recommendations arising from these audits and to recover all funds improperly paid. USAC shall ensure that auditors receive proper training on the telecommunications industry and the USF rules and requirements. In addition, USAC shall ensure providers and beneficiaries are properly informed of this audit plan and any audit results that are derived from these audits.

We request that USAC develop a calendar for the external and internal actions required to implement the assessment and audit programs identified herein and submit this plan for action to the Managing Director of the FCC by March 15, 2010.⁶ Thank you for the extensive assistance provided by USAC staff in developing the programs outlined herein. We look forward to working with you on these and other matters paramount to the continued effective and efficient oversight of the USF.

Sincerely,


Steven Van Roekel
Managing Director

Cc: David Hunt, Acting Inspector General
Austin Schlick
Sharon Gillett
Mark Stephens

⁶ Guidance received from OMB may necessitate an extension of this date.