Federal Communications Commission
Office of the Managing Director
Washington, D.C. 20554

August 27, 2019

The Honorable Ron Johnson
Chairman
Committee on Homeland Security and Governmental Affairs
United States Senate
340 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Johnson:

The Federal Communications Commission (FCC or Commission) is writing to you to follow up on the results of the audit by its Office of Inspector General of the FCC's compliance with Improper Payments Elimination and Recovery Improvement Act (IPERIA) reporting requirements for Fiscal Year (FY) 2018.

The FCC's Inspector General's auditors determined that the Universal Service Fund's (USF) Lifeline Program (Lifeline) as well as the USF's High Cost Program (High Cost) were out of compliance with the government-wide improper payments reporting requirements for the FY 2018 reporting year. The requirements for IPERIA reporting compliance are described in the Office of Management and Budget's (OMB) guidance on improper payments reporting in Appendix C of OMB Circular A-123.

Specifically, the Inspector General's auditors reported the following four findings:

- For FY 2018, the FCC reported an estimated gross improper payment amount for the Lifeline Program of $227.02 million with an improper payment rate of 18.47 percent. This improper payment rate exceeded the limit of less than 10 percent of the program's gross outlays as described in OMB's guidance on improper payments reporting.
- The FCC's estimated improper payment rate for the High Cost Program did not adequately reflect the significant risks of improper payments that exist in the High Cost Program. As a result, the Inspector General's auditors reported that they were unable to rely on the improper payment rate reported for the High Cost Program and found that the program is out of compliance with OMB's guidance on improper payments reporting.
- The FCC did not report improper payments of $12.5 million and recoveries of $1.1 million for the Lifeline Program that were identified through sources outside of the Universal Service Administrative Company's (USAC) payment recapture audits.
- The FCC did not report the true root causes for improper payments in the Lifeline Program because the FCC's FY 2018 improper payments reporting did not address the risks associated with authentication of consumer eligibility and fraudulent activities.

Per the reporting requirements for agencies on non-compliance as contained in OMB Circular A-123, below please find information from the FCC on its efforts to bring the agency back into compliance for both the Lifeline Program and the High Cost Program.

1) *Measurable milestones to be accomplished in order to achieve compliance for each program or activity.*

   a) Lifeline Program
      - To prevent payments for ineligible subscribers, the FCC and USAC began deploying the National Verifier in 2018. The National Verifier confirms subscribers' eligibility to participate in the Lifeline Program and prevents duplicate enrollments. In addition, the eligibility of every subscriber in a state or territory is re-verified upon deployment of the National Verifier to that state or territory. As of August 31, 2019, the National Verifier has been implemented in 38 states and territories.

      - To prevent payments for improperly certified subscribers, the FCC and USAC developed standard forms for the Lifeline Program's certification, re-certification, and one-per-household worksheets. As a result of this initiative, since July 1, 2018, all service providers have been required to use these forms.

      - To prevent payments to phantom subscribers, the FCC and USAC made changes to the calculation of carriers' claims for Lifeline reimbursement in January 2018, so that USAC now calculates claims based on subscribers that have been fully validated by the National Lifeline Accountability Database (NLAD), rather than on carriers' self-validated claims.

      - To prevent payments for ineligible subscribers, USAC's Lifeline Program integrity team, along with the FCC, instituted updated review procedures in August 2017. These procedures include additional risk-based reviews of various data points.

      - On an annual basis, USAC management performs a root cause analysis of common audit findings. Through this analysis, USAC management identifies the top audit findings for the Lifeline Program based on USAC's experience over time. USAC management then performs an assessment to determine the root cause associated with these findings. Finally, USAC management implements a corrective action plan to reduce future instances of these findings, and thus, further reduce the improper payment rate.

   b) High Cost Program
      - The FCC and USAC will work together to determine if it is appropriate to expand improper payment testing procedures for the High Cost Program, given the nature and design of the High Cost Program.

      - The FCC and USAC will work together with USAC's independent statistician to determine if there are alternative approaches that can be used to more clearly reflect the risks of improper payments in the High Cost Program.

      - On an annual basis, USAC management performs a root cause analysis of common audit findings. Through this analysis, USAC management identifies the top audit findings for the High Cost Program based on USAC's experience over time. USAC management then performs an assessment to determine the root cause associated with these findings. Finally, USAC management implements a corrective action plan to reduce future instances of these findings, and thus, further reduce the improper payment rate.

2) *The designation of a senior agency official who should be accountable for the progress of the agency in coming into compliance for each program or activity.*

   Mark Stephens, Managing Director, has been designated as the accountable official for FCC compliance. The Managing Director oversees the FCC's operations group, which includes the Chief Financial Officer.

3) *The establishment of an accountability mechanism, such as a performance agreement, with appropriate incentives and consequences tied to the success of the senior agency official in leading agency efforts to achieve compliance for each program and activity.*

   The FCC is committed to continually improving and strengthening the program integrity of its operations and the programs that it oversees. The Managing Director's performance plan will be modified to include measures related to strengthening program integrity and assuring compliance with improper payment related laws and guidance.

Please feel free to contact me at 202-418-0817 if you have any questions about this correspondence.

Sincerely,

Mark Stephens
Managing Director