



OPASTCO



For Your Information: USAC Analysis of the FCC's USF Audit Program

The attached document is an analysis from the Universal Service Administrative Company (USAC) on the extensive Universal Service Fund (USF) audit program that it has conducted under the direction of the Federal Communications Commission's (FCC) Office of Inspector General (OIG). In sum, the analysis finds that the costs of the current audit program have far outweighed the benefits, and that there are alternative approaches that could be taken that would still be compliant with the law and improve USF administration. Some of the key findings in the analysis include:

* The FCC OIG's use of "compliance attestation" audits to comply with the Improper Payments Information Act of 2002 (IPIA) appears to be unique among federal agencies. The IPIA does not require formal audits, nor does the Office of Management and Budget (OMB) require the use of a particular audit standard such as the "compliance attestation" methodology.

* The FCC OIG's estimates of "improper payments" significantly inflate the estimated error rates and do not provide an accurate reflection of levels of program compliance. A payment can be labeled as "erroneous" (or "improper") even if it is not linked to an audit finding, or ultimately recoverable under FCC rules. In instances where an audit firm declines to provide an opinion on compliance due to insufficient documentation, it results in 100 percent of the payments to the USF beneficiary being classified as "improper" – even when the beneficiary only lacked certain records for which there was no record retention requirement at the time the USF payment was made.

* In Round One of the FCC OIG audits, the OIG estimated that \$618 million in payments under the High-Cost program were "improper." Yet, of that amount, only 0.13 percent (\$217,924) is based on actual potential violations for which USAC is authorized by law to seek recovery. Further, of that amount, \$46,000 is under appeal. Another \$21 million in potential recoveries is on hold pending follow-up activity related to the audit recommendations.

* The total cost of Rounds One and Two of the FCC OIG audit program exceeded \$145 million, while the amount of money that is recoverable is minimal. Round Three of the audit program is estimated to cost over \$155 million.

* Round Two of the audits began immediately following Round One, before reporting and analysis from Round One could be completed, and appropriate follow-up steps could be taken. As a result, Round Two reached statistically indistinguishable outcomes from Round One, though at a significantly higher cost in time, money, effort, and impact on beneficiaries. Similarly, Round Three of the audits began before reporting and analysis of Round Two could be completed.

* The FCC OIG has reported no instances of fraud in any of the USF programs as a result of either Round One or Two audits and has recognized a generally high level of program compliance.

* USAC anticipates that continuing the current audit program will yield little new information. It therefore recommends that more cost-effective approaches be considered – such as a combination of random and targeted agreed-upon procedures or performance audits – that would enable the FCC and USAC to fulfill their statutory and regulatory duties and improve USF administration.

Organization for the Promotion and Advancement of Small Telecommunications Companies

21 Dupont Circle NW, Suite 700
Washington, DC 20036

Phone: 202/659-5990; Fax: 202/659-4619

For more information, contact: Randy Tyree, rxt@opastco.org;
Stuart Polikoff, sep@opastco.org; Steve Pastorkovich,
sfp@opastco.org; or Brian Ford, bjf@opastco.org.

Western Telecommunications Alliance

317 Massachusetts Ave. NE, Suite 300C
Washington, DC 20002

Phone: 202/548-0202; Fax: 202/292-4057

For more information, contact: Derrick Owens, derrick@w-t-a.org;
or Eric Keber, eric@w-t-a.org.