

Audit of the Federal Communications
Commission Improper Payments
Elimination and Recovery Act (IPERA)
Reporting

FY 2013

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MEMORANDUM

DATE: April 10, 2014

TO: David L. Hunt, Inspector General, Federal Communications Commission

FROM: Lani Eko, CPA, CGFM, Partner

SUBJECT: Performance Audit of the Federal Communications Commission's Improper Payments Elimination and Recovery Act Reporting in the Fiscal Year 2013 Agency Financial Report

Attached is the final audit report that covers the results of our performance audit of the Federal Communications Commission (FCC)'s Improper Payments Elimination and Recovery Act (IPERA) Reporting in the Fiscal Year 2013 Agency Financial Report. Our fieldwork was performed during the period of November 5, 2013 through March 31, 2014.

We conducted our audit in accordance with standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We determined the FCC complied with the seven IPERA criteria as defined in the Office of Management and Budget (OMB)'s Memorandum M-11-16 Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123, Part II (A) (4). However, we identified two findings, and made five recommendations to FCC's Management for improvement regarding reporting of improper payment recapture audits and overpayments.

We appreciate the cooperation given to us during the audit.

Lani Eko & Company, CPAs, PLLC

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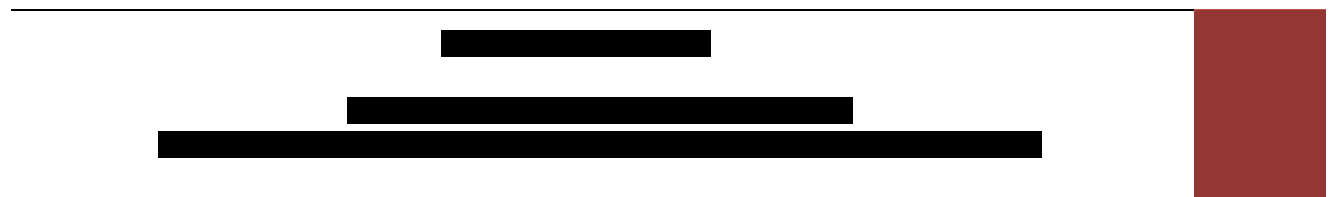
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EXECUTIVE SUMMARY

The objective of our performance audit of the Federal Communications Commission (FCC) Improper Payments Elimination and Recovery Act (IPERA) Reporting was to evaluate the FCC's compliance with the IPERA in accordance with the Office of Management and Budget (OMB)'s guidance - OMB Memorandum M-11-16 *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, Part II (A) (4).

We conducted our audit in accordance with standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit covered the period from October 1, 2012 through September 30, 2013.

We noted the following matters relating to the FCC's IPERA program:

1. Recapture Audits

In Section VI, *Recapture of Improper Payments Reporting of the IPERA Report*, Fiscal Year (FY) 2013 Agency Financial Report (AFR), the FCC reported that it conducted a payment recapture audit by testing and reviewing a sample of 50 non-salary operating expense transactions that were recorded on the FCC's financial records in FY 2013. The agency reported that transactions tested totaled \$3,075,563. The same dollar amount was reported as the *Actual Amount Reviewed and Reported (CY) for FCC-Operating Expenses (OE)* in Table 2 *Payment Recapture Audit Reporting*, Section VI of the AFR. Upon further review, we noted the following errors:

- Actual total for the 50 transactions tested was \$671,922;
- The transactions were erroneously selected from FCC's FY 2012 financial records.

2. Recaptured Overpayments

In the IPERA Section III, *Corrective Action Plans*, of the FY 2013 AFR, the FCC reported that they executed four Consent Decree Orders with Telecommunications Relay Service (TRS) providers regarding questionable costs identified by investigations. The Consent Decrees required the providers to pay \$12 million into the TRS Fund. Although the TRS providers paid the \$12 million to the TRS Fund, the FCC did not report the amount in Table 6, *Overpayments Recaptured Outside of Payment Recapture Audits of Section V Recapture of Improper Payments Reporting*.

Failure to report improper payments identified and recovered in the FY 2013 AFR for the TRS Fund resulted in an incomplete disclosure of improper payments recovery efforts for the FCC. In addition, incomplete reporting of amounts recovered may impair the ability of FCC's management to evaluate the performance and effectiveness of the IPERA reporting process.

The detailed findings, recommendations and management responses are provided in respective sections of this report.

BACKGROUND

The FCC is an independent United States government agency, directly responsible to Congress. The FCC was established by the Communications Act of 1934, as amended (the Act), 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 FCC oversees compliance with statutory and regulatory responsibilities of eight programs it created as directed by Congress.

- Universal Service Fund High Cost Program (USF-HC)
- Universal Service Fund Low Income Program (USF-LI)
- 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 Services Fund (TRS)
- North American Numbering Plan (NANP)
- FCC Operating Expenses (FCC-OE)

The Universal Service Fund programs are administered by the Universal Service Administrative Company (USAC), the Interstate Telecommunications Relay Service (TRS) Fund is administered by Rolka Loubé Saltzer Associates, LLC (RLSA), and the North American Numbering Plan (NANP) is administered by Welch LLP as the Billing and Collection Agent.

In July 2010, the President signed into law the Improper Payments Elimination and Recovery Act (Public Law 111-204). IPERA amended the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300) and generally repealed the Recovery Auditing Act (Section 831, Defense Authorization Act, for FY 2002; Public Law 107-107). IPERA expands on the previous requirements for identifying, estimating, and reporting on programs and activities susceptible to significant improper payments. In 2011, the Office of Management and Budget (OMB) issued Memorandum M-11-16 *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, which provides Government-wide guidance on the implementation of IPERA.

OMB M-11-16 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 as susceptible to significant improper payments, and report efforts in reducing improper payments and recapturing overpayments.

The FCC's FY 2012 IPERA reporting identified three high-risk programs (USF-HC, USF-S&L, and TRS). In FY 2013, FCC performed risk assessments for the remaining five programs (USF-RHC, USF-LI, USF-Admin, NANP, and FCC-OE), one year earlier than three-year period requirement for programs that are not classified as high risk. In addition, in FY 2013, USF-LI was classified as a

high-risk program. FCC utilized OMB-approved alternative sampling methodologies to obtain statistically valid estimates of the improper payments for USF-HC, USF-S&L, and TRS programs. The methodologies tested payments based on either program payment components for USF or test of internal controls for TRS. TRS's improper payment estimate was zero. The FCC reported its efforts in reducing and recapturing improper payments for all USF and TRS programs, and reported payment recapture audits for all the FCC programs.

RESULTS OF AUDIT

Based on our audit, we determined that the FCC complied with the seven IPERA criteria as defined in OMB M-11-16 *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, Part II (A) (4).

However, we were also tasked to evaluate the accuracy and completeness of the agency's reporting and performance in reducing and recapturing improper payments. We found (1) two errors in the reporting of the recapture audit and (2) incomplete reporting of the recaptured overpayments. The recommendations below are actions that further improve the accuracy and completeness of the agency's reporting and performance in reducing and recapturing improper payments.

Finding No. 1 - Recapture Audits

In Section VI, *Recapture of Improper Payments Reporting of the IPERA Report*, FY 2013 Agency Financial Report (AFR), the FCC reported that it conducted a payment recapture audit for FCC-OE program, by testing and reviewing a sample of 50 non-salary operating expense transactions that were recorded on the FCC's financial records in FY 2013. The agency reported that transactions tested totaled \$3,075,563. The same dollar amount was reported as the *Actual Amount Reviewed and Reported (CY) for FCC-OE* in Table 2 *Payment Recapture Audit Reporting*, Section VI of the AFR. Upon further review, we noted the following errors:

- Actual total for the 50 non-salary operating expense transactions tested was \$671,922;
- The transactions were erroneously selected from FCC's FY 2012 financial records.

The Office of Management and Budget (OMB) Circular A-136 *Financial Reporting Requirements*, II.5.8 V. *a and b* states: "An agency shall discuss payment recapture audit (or recovery auditing) efforts, if applicable. The discussion should describe: the agency's payment recapture audit program; ...Complete the tables below... Table 2 Payment Recapture Audit Reporting..."

OMB Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, Part I (B)(18) states: "In accordance with OMB Circular A-136, agencies must report annually on their payment recapture audit program in the PARs and AFRs. The report shall include the following information:... b) The total amount of payments subject to review, the actual amount of payments reviewed, the amounts identified for recapture, and the amounts actually recaptured in the current year...."

OMB Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, Part I (B)(2) states: "Agency shall have a cost-effective program of internal control to prevent, detect, and recover overpayments.", "Effective internal controls should include payment recapture auditing techniques such as data matching with Federal, state and local databases; and

data mining and predictive modeling to identify improper payments.”, and “These payment recapture audits should be implemented in a manner designed to ensure the greatest financial benefit to the Federal government.” In addition, OMB Memorandum M-11-16, Part I (B) (4b) states: “Agencies should utilize known sources of improper payment information and give priority to recent payments and to payments made in programs identified as susceptible to significant improper payments.”

According to FCC’s management, following prior year’s practice, for reporting FCC- OE recapture audit in FY 2013 IPERA, the FCC tested prior year data - FY 2012 FCC-OE samples which amounted to \$671,922. However, the FCC mistakenly submitted the total amount from the 50 unaudited sample transactions for FY 2013 totaling \$3,075,563 to the FCC IPERA report team for inclusion in the IPERA section of the FY 2013 AFR.

The IPERA report team relied on recapture audit information provided by FCC programs without detailed examination of the supporting documentation used to develop this information. Although the FCC’s IPERA Report went through a Quality Control review process in which the reviewer reconciled the reported numbers and supporting documentation, the reviewer did not examine the transactions’ source documentation that would have revealed the errors noted. In addition, the FCC Quality Control reviewer did not review the sample selection method and transaction periods tested to ensure the audit reflected the most current fiscal year period.

The FCC’s IPERA Policy is broad and it mirrors OMB M-11-16 guidance. It did not include guidance on how the Quality Control review process should be performed at the program level to enable FCC to perform a secondary Quality Control review of transaction source documentation before submitting the recapture audit data to the IPERA report team. In addition, the FCC-OE recapture audit was combined with improper payment and internal controls testing, which mainly focused on test attribute design as opposed to details on how the testing processes should be tailored for IPERA.

FCC’s failure to report the correct amount of payments reviewed resulted in a difference of \$2,403,641 between the amount tested and the amount reported for FCC, Table 2 in the IPERA section of the FY 2013 AFR. In addition, failure to sample and review IPERA transactions from the current reporting FY 2013, prevented the FCC from timely reporting and recapturing IPERA-related overpayments.

RECOMMENDATIONS:

In order to promote accurate reporting and effective implementation of recapture audits, we recommend that the FCC’s management:

1. Enhance the existing Quality Control review processes, at both the program and FCC Headquarters levels, to include reviews of transaction supporting documentation at the program and FCC Headquarters levels to ensure the IPERA payment recapture data are accurate; and

2. Develop recapture audit procedures with detailed guidance on sample selection methods and review processes at the program level to ensure transactions reflect the most current and proper period.

Finding No. 2 - Recaptured Overpayments

The IPERA Section III, *Corrective Action Plans*, of the FY 2013 AFR, reported that the FCC executed four Consent Decree orders with TRS providers regarding questionable costs identified by investigations. The Consent Decrees required the providers to pay \$12 million to the TRS Fund. Although TRS providers paid the \$12 million to the FCC, the amount was not reported in Table 6 *Overpayments Recaptured Outside of Payment Recapture Audits of Section V Recapture of Improper Payments Reporting (Table 6)*.

The Office of Management and Budget (OMB) Circular A-136 *Financial Reporting Requirements, II.5.8 V. d* states: “As applicable, agencies should also report on improper payments identified and recovered through sources other than payment recapture audits. For example, agencies could report on improper payments identified through: statistical samples conducted under IPIA; agency post-payment reviews or audits; Office of Inspector General reviews; Single Audit reports; self-reported overpayments; or efforts from the public.”

According to the FCC’s management, the omission of the amount recovered from TRS providers was due to FCC personnel oversight. The IPERA reporting team failed to include a line item for TRS Consent Decrees in Table 6 because this item had not been reported in the previous fiscal year’s IPERA reports.

In addition, FCC’s IPERA reporting guidance and procedures did not include quality review procedures to ensure the completeness of amounts reported as recapture overpayments.

Failure to report improper payments identified and recovered in the FY 2013 AFR for the TRS Fund resulted in an incomplete disclosure of improper payments recovery efforts for the FCC. In addition, incomplete reporting of amounts recovered may impair the ability of FCC’s management to evaluate the performance and effectiveness of the IPERA reporting process.

RECOMMENDATIONS:

We recommend that the FCC’s management:

3. Enhance the existing Quality Control review processes, at both the program and FCC Headquarters levels, to ensure the reporting of IPERA overpayments recaptured outside of payment recapture audits.
4. Update the current quality review process to include review for completeness and accuracy of data presented in the Recapture of Improper Payments Reporting section of the AFR.

5. Follow up periodically with Fund Administrators and providers for updated data and efforts in the IPERA recapture of overpayments process.

APPENDIX A – OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit of the FCC IPERA were to determine whether the FCC has:

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 IPERA, 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;
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;
7. Reported information on its efforts to recapture improper payments; and

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

We conducted our audit in accordance with standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audit covered the period from October 1, 2012 through September 30, 2013.

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 IPERA.
- Reviewed Government Accountability Office (GAO) reports of IPERA and related issues with federal agencies to update our understanding and awareness of compliance issues with IPERA.
- Made inquiries of appropriate FCC officials and obtained documentation to understand: how FCC implemented the provisions of IPERA; significant programs/activities; guidance provided in the FCC's directives and policies and procedures manuals; documentations maintained to support IPIA/IPERA data; the information reported on the AFR; and oversight over the calculation of improper payments.
- Reviewed previous years' reports to understand the FCC's IPERA program and processes, challenges and focus areas for IPERA process improvement and reporting.
- Reviewed FCC's effort to improve the IPERA process by following up on FCC's implementation of prior year auditor recommendations.

- Reviewed the FCC's FY 2013 AFR, IPERA reporting details for compliance with OMB A-136, revised requirements for reporting IPERA.
- Reviewed latest risk assessments for all programs for compliance with OMB M-11-16 risk assessment requirements.
- Reviewed sampling plans and results, related correspondences with the OMB, and supporting documentation for the plans and results.
- Validated the improper payment rate calculation methodology and figures.
- Reviewed the AFR, IPERA reporting details, and obtained additional supporting documentation to evaluate FCC's effort in preventing, reducing, and recovering improper payments.
- Reviewed FCC's effort and reporting of recapture of improper payments.
- Reviewed, recalculated, and agreed key figures and information in the AFR, IPERA reporting details to supporting documentations.
- Reviewed the FCC's IPERA reporting quality control procedures, and supporting documentation.

APPENDIX B – MANAGEMENT'S RESPONSE



UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION

Office of Managing Director

MEMORANDUM

DATE: April 9, 2014

TO: David L. Hunt, Inspector General

FROM: Jon Wilkins, Managing Director and Mark Stephens, Chief Financial Officer

SUBJECT: Management's Response to Independent Auditors' Letter, dated April 8, 2014, to the Inspector General and the Managing Director Regarding the Commission's Compliance with IPERA

Thank you for the opportunity to respond to the letter dated April 8, 2014, from the independent auditors to the Inspector General and the Managing Director, regarding the Federal Communications Commission's (Commission) compliance with requirements described in the U.S. Office of Management and Budget (OMB) Memorandum M-11-16 *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123, Part II(A)(4)*, including the Commission's compliance with the *Improper Payments Elimination and Recovery Act of 2010 (IPERA)* for the year ending September 30, 2013. We appreciate the efforts of your team and the independent auditors, Lani Eko & Co., 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 note that we are pleased that the auditors issued an opinion in their report entitled, *Audit of the Federal Communications Commission Improper Payments and Recovery Act (IPERA) Reporting FY 2013*, that the Commission, "complied with the seven IPERA criteria in OMB M-11-16 *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123, Part II(A)(4)*," for the year that ended on September 30, 2013. The Commission takes seriously the issue of compliance with the requirements of laws, regulations, and contracts applicable to IPERA, and to reducing improper payments in the Commission's programs.

We also recognize and appreciate the independent auditors' findings and recommendations related to the reporting of FCC operating expenses and the Consent Decree amounts agreed to in the Telecommunications Relay Services (TRS) program during FY 2013. We are currently taking steps, as recommended by the auditors to enhance our quality control procedures for reporting tested and

recovered amounts for internal FCC expenses and for component programs, such as TRS. This includes the reporting of overpayments recovered outside of the payment recapture auditing process.

The Commission and its staff welcome the findings of compliance and the recommendations in this report. We look forward to updating the IG and its auditors on progress made toward improving our reporting process in our Annual Financial Report (AFR).



Jon Wilkins, Managing Director
Office of Managing Director



Mark Stephens, Chief Financial Officer
Office of Managing Director

APPENDIX C – LIST OF ACRONYMS

AFR	Agency Financial Report
CY	Current Year
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
USAC	Universal Service Administrative Company
USF	Universal Service Fund
USF-HC	Universal Service Fund - High Cost
USF-LI	Universal Service Fund – Low Income (Lifeline)
USF- RHC	Universal Service Fund - Rural Health Care
USF- S&L	Universal Service Fund - Schools and Libraries