



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

September 14, 2020

The Honorable Russell Vought
Acting Director
Office of Management and Budget
Eisenhower Executive Office Building
725 17th Street, NW
Washington, D.C. 20503

Dear Mr. Vought:

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 the reporting requirements for the Improper Payments Elimination and Recovery Improvement Act (IPERIA) for Fiscal Year (FY) 2019.

The Office of Management and Budget's (OMB) guidance in Appendix C of Circular A-123 provides that OMB will review any program that is not compliant with IPERIA for two consecutive fiscal years to determine if additional funding would assist the program in reaching compliance. For the second consecutive year, the FCC's Inspector General's auditors have determined that the Universal Service Fund's (USF) High Cost Program is not in compliance with IPERIA. To support OMB in its review of the High Cost Program under Circular A-123, the FCC has provided information about its efforts to bring the High Cost Program into compliance in the attachment to this letter.

While the FCC only partially concurs with the findings of the Inspector General's auditors, we will continue to take action to resolve the concerns raised by the Inspector General's auditors with the goal of demonstrating that the High Cost Program is in compliance with IPERIA. The FCC is not seeking additional funding to support its efforts to bring the High Cost Program into compliance with IPERIA. If you have any questions or wish to discuss these issues further, please do not hesitate to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mark Stephens", is written over a light blue horizontal line.

Mark Stephens
Managing Director

USF High Cost Program

In FYs 2018 and 2019, the Inspector General's auditors concluded that the High Cost Program's improper payment rate did not adequately reflect the risk of improper payments in the program.

The following paragraphs are brief descriptions of the key efforts by the FCC and the Universal Service Administrative Company (USAC) to prevent and reduce improper payments in the High Cost Program:

- **Improper Payment Testing Procedures:** The FCC and USAC are working together to determine what procedures can be added or enhanced to ensure improper payment testing procedures adequately assess the risk associated with the High Cost Program. To assist in this initiative, USAC management will utilize the testing results from its Beneficiary and Contributor Audit Program (BCAP) audits to identify high-risk areas in the program. The resulting improper payment procedures will then have a deeper focus on these high-risk areas and will complement USAC's other program integrity efforts.
- **Improper Payment Rate Sampling Plan:** 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, such as differentiating between Legacy and Modernized High Cost Program funds. For FY 2020, USAC's sampling plan focused on higher-risk areas of the High Cost Program.
- **Program Integrity Efforts:** USAC's High Cost Program team is implementing a process to review and validate carrier data prior to disbursement. This review will focus on high-risk areas with a greater likelihood of improper payments. Through this review, areas of non-compliance will be identified and addressed prior to disbursement, reducing future instances of improper payments.
- **Improper Payment Analysis:** USAC management is performing a deep-dive analysis of its improper payments to more thoroughly understand their root causes and to identify corrective actions that will address the root causes. Through this analysis, USAC management is institutionalizing corrective actions as part of its program integrity efforts that will reduce future instances of improper payments.