

TESTIMONY

Of

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Before the

**Subcommittee on Federal Financial Management, Government Information,
Federal Services, and International Security
Committee on Homeland Security and Government Affairs
United States Senate**

On

Eliminating Agency Payment Errors

January 31, 2008

Good afternoon, Mr. Chairman, Dr. Coburn, and distinguished members of the Subcommittee. Thank you for the opportunity to appear before you to speak about the Improper Payments Information Act of 2002 and the activities of the Federal Communications Commission in this area.

In November 2007, the Commission reported for the first time an estimate of potential improper payments affecting one of our programs, the Universal Service Fund. The Commission has taken numerous steps to assess, measure, and address potential improper payments. I will provide a summary of the steps below.

The Universal Service Fund helps ensure access to telecommunications services for consumers in high cost and rural areas, and promotes access to advanced services for schools, libraries, and health care service providers in rural areas. It consists of four programs: the High Cost Program, which disbursed approximately \$4.2 billion in Fiscal Year 2007; the Schools and Libraries Program (also known as the E-rate Program), which is capped at \$2.25 billion under the Commission's rules; the Low Income Program, which disbursed approximately \$830 million in Fiscal Year 2007; and the Rural Health Care Program, which is capped at \$400 million under the Commission's rules, but has historically operated far below that annual cap. The program is funded through contributions from providers of interstate and international telecommunications services.

The Universal Service Fund is administered by a non-profit corporation, the Universal Service Administrative Company. The Administrator receives and reviews applications for benefits, disburses funds to beneficiaries, and collects funds from service providers. The Administrator also performs certain oversight functions under the direction of the Commission's Inspector General, such as audits and investigations of program participants.

In March 2004, the Commission submitted its Improper Payments Information Act report to Congress concerning potential improper payments in the programs under its purview. At that time, the Commission performed a risk assessment and concluded that two of the Universal Service Fund programs – that is, the High Cost Program and the Schools and Libraries Program – were at risk for potential improper payments because of the activities of program participants. In order to estimate potential improper payments, the Commission relied on the expert audit oversight conducted by the Commission’s Inspector General.

In August 2006, the Inspector General initiated a statistically-valid sample of audits of USF beneficiaries and contributors in order to identify potential improper payments, to determine whether beneficiaries and contributors complied with the Commission’s rules, to detect and deter potential waste, fraud and abuse, and to identify areas for improvement in the program. The Inspector General oversaw the completion of 65 audits of High Cost Program beneficiaries, 155 audits of E-rate Program beneficiaries, 60 audits of Low Income Program beneficiaries, 89 audits of Rural Health Care Program beneficiaries, and 90 audits of contributors, for a total of 459 audits. Through his audit sampling oversight efforts, the Inspector General directly audited more than \$825 million in disbursements from the Universal Service Fund for the Fiscal Year 2005 period, and more than \$450 million in contributions to the Universal Service Fund for the calendar year 2005 period. This was the largest, most comprehensive examination of Universal Service Fund beneficiaries and contributors that has been completed to date.

On October 3, 2007, the Inspector General released his initial analysis of these audits. The Inspector General concluded that, “[i]n general, the audits indicated compliance with the Commission’s rules, although erroneous payment rates exceeded 9%” in most USF programs.

The specific erroneous payment rates the Inspector General found by program were: the High Cost Program, 16.6%; the Schools and Libraries Program, 12.9%, the Low Income Program, 9.5%; the Rural Health Care Program, 20.6%; and Contributors' payments, 5.5%. Based on these initial audit results, the Inspector General reported that improper payments to USF beneficiaries could be more than \$900 million and incorrect payments from USF contributors could be more than \$350 million.

The Inspector General has informed us that he plans to significantly expand the audit program going-forward in order to provide a more precise estimate of the error rate. We understand that the Inspector General's audits are currently underway and should be completed later this year. We expect that these upcoming audit results would be used to determine the baseline of potential improper payments in the program.

The Inspector General's audit results identified several causes for improper payments in the USF. In particular, the Inspector General identified inadequate document retention, inadequate policies, inadequate accounting systems, and weak internal controls as the cause for many improper payments for USF beneficiaries. The Inspector General also identified a lack of compliance with some Commission rules as an underlying cause of improper payments. Finally, the Inspector General found problems with the application review process, incorrect interpretations of the program rules or administrative requirements, data entry errors, and inadequate supervision of consultants as causes for improper payments in the program.

We are concerned about the error rates the Inspector General identified. Our primary goal is to safeguard the Universal Service Fund so as to ensure the program operates as Congress intended. In this regard, we have already taken a number of steps to address the problems identified by the Inspector General. First, we are working to recover any improperly disbursed

funds. After the Inspector General released his initial analysis of the audit results, we instructed the Administrator to start recovering funds, and this process is currently underway.

Second, in August 2007, the Commission adopted rules that address many of the problems the Inspector General identified. The Commission's new rules establish tighter document retention requirements for program participants, provide for a uniform standard for recovering improperly disbursed funds, use performance measurements to better manage the Administrator, and provide stricter penalties for contributors who fail to make timely payments. The Commission's new rules also create additional penalties for bad actors – specifically, the Commission can now debar any party that defrauds any of the programs from continued participation in the program. The Commission has already used its debarment authority to ban ten corporations and individuals from continued participation in the program.

Third, in October 2007, we directed the Administrator to carefully review the Inspector General's audit results and recommend additional steps the Administrator should take to prevent or reduce potential improper payments. We also directed the Administrator to identify any additional resources that may be needed to further safeguard the Fund. The Administrator submitted its report on December 31, 2007 and a subsequent report on January 18, 2008. We are currently reviewing these reports to determine what additional actions may be required.

Fourth, the Commission tightened oversight of the Administrator's processes and procedures. Specifically, we established a Memorandum of Understanding with the Administrator to ensure the Administrator performs its functions in an efficient, effective manner.

Fifth, program participants that violated the Commission's rules could be subjected to potential enforcement action.

Finally, we sought and recently received additional funding for the Inspector General to enhance oversight of the Universal Service Fund. For the Commission's Fiscal Year 2008 appropriation, we requested a total of \$21.48 million for the Inspector General to perform audits directly, to provide investigational support, and to obtain contractual services needed to prevent and remedy waste, fraud, and abuse. We recently received authorization for this funding level, and the Inspector General is ramping up his oversight activities accordingly.

Thank you for this opportunity to report on the Commission's efforts in this area. I will be happy to answer any questions you may have.