

**Testimony of D. Scott Barash
Acting Chief Executive Officer
Universal Service Administrative Company**

**Before the
Energy and Commerce Committee
Subcommittee on Communications and Technology
United States House of Representatives**

February 16, 2012

Good morning. My name is Scott Barash, and I am the Acting Chief Executive Officer of the Universal Service Administrative Company, or USAC. USAC is the independent, not-for-profit corporation created in 1997 to administer the universal service support mechanisms. USAC is governed by a Board of Directors selected by the Chairman of the Federal Communications Commission (FCC) from nominations by universal service stakeholder groups. USAC's mission is to collect FCC-mandated contributions from telecommunications carriers and distribute these funds to beneficiaries in the four universal service programs – High Cost, Low Income, Rural Health Care, and Schools and Libraries – in accordance with FCC rules, orders, and directives. As a neutral administrator, USAC does not establish policy and may not advocate policy positions. In order to accomplish our mission, we work closely with the FCC, which oversees our operations.

I will be providing information today about how USAC administers the universal service programs and collects universal service contributions. In 2011, USAC collected \$8.4 billion in contributions from telecommunications carriers and disbursed \$8.1 billion to beneficiaries. USAC spent \$106.9 million to collect and distribute these funds, generating an administrative expense rate of 1.34%. In other words, 98.66% of contributions from telecommunications carriers went to universal service program beneficiaries. This percentage compares favorably to the rate at which other federal assistance programs and non-profit organizations deliver funds to

their beneficiaries. USAC strives every day to minimize administrative costs, which are part of universal service collections. For example, last year we worked with the FCC to streamline Schools and Libraries Program procedures, resulting in a \$4 million savings.

I will now briefly describe the four universal service programs, what USAC does to administer those programs, and how much USAC spent in 2011 to do so.

High Cost Program

The High Cost Program provides support to ensure that telecommunications rates and services available to customers who live in rural or hard-to-serve areas are reasonably comparable to rates and services available in urban areas.

In calendar year 2011, the High Cost Program disbursed \$4.0 billion to 1,903 companies in support of 110 million lines. To provide program support, every month USAC gathers significant amounts of data from companies, performs extensive calculations to derive the support they are eligible for, and then makes disbursements to them. To administer the High Cost Program in 2011, USAC spent \$16.9 million. As with USAC's expenses in the other programs, this figure includes the people and information technology costs associated with collecting and analyzing data, determining support for eligible beneficiaries, disbursing funds, and conducting on-going audit and quality assurance programs to prevent and detect waste, fraud and abuse.

Low Income Program

The Low Income Program provides support to make voice telephony affordable to eligible low-income consumers. USAC's role is to disburse to telecommunications carriers a defined dollar amount each month for each eligible consumer to whom they provide discounted

service. Administering the Low Income Program is similar to the High Cost Program: USAC gathers data from companies every month, performs extensive calculations to derive support, and then makes monthly disbursements. In 2011, the Low Income Program disbursed \$1.7 billion to 2,025 companies providing discounted telephone service to 13.7 million households eligible for support. To administer the Low Income Program in 2011, USAC spent \$5.4 million.

Rural Health Care Program

The Rural Health Care Program provides reduced rates to eligible health care providers for telecommunications and Internet services necessary for the provision of health care. USAC disburses payments to companies providing telecommunications services to health care providers so that these services end up costing about what they would cost in urban areas. Eligible participants must be a rural public or non-profit health care provider.

USAC is responsible for processing applications for support, confirming eligibility pursuant to FCC rules, and reimbursing service providers for discounts delivered to rural health care providers. USAC reviews applications, invoices, and other program information to ensure that applicants and service providers follow FCC program rules and to support FCC efforts to prevent and detect waste, fraud and abuse. In 2011, the Rural Health Care Program disbursed \$81.5 million to 472 companies serving 3,088 eligible health care providers, and another \$54.3 million to beneficiaries of the Rural Health Care Pilot Program. To administer the Rural Health Care Program in 2011, USAC spent \$12.7 million.

Schools and Libraries Program

The Schools and Libraries Program, commonly known as “E-Rate,” provides discounts of up to 90% to assist most schools and libraries in the United States in obtaining affordable

telecommunications services and Internet access. As in the Rural Health Care Program, program funds are disbursed to companies providing services to eligible beneficiaries, in this case public and most non-profit K-12 schools, and all public and many private libraries.

Administration of the Schools and Libraries Program is much like it is in the Rural Health Care Program: USAC processes applications for support, confirms eligibility, and reimburses telecommunications companies and Internet access providers for discounts delivered to beneficiaries. USAC reviews applications, invoices, and other program information to ensure that applicants and service providers follow FCC program rules and to support FCC efforts to prevent and detect waste, fraud and abuse. In 2011, the Schools and Libraries Program reviewed 44,651 applications and disbursed \$2.2 billion to 4,165 companies providing services to tens of thousands of schools and libraries in all states and territories of the U.S. To administer the Schools and Libraries Program in 2011, USAC spent \$71.9 million.

Universal Service Contributions

Universal service contributions come from telecommunications carriers earning revenues from providing interstate and international calling services. These companies file revenue data with USAC, which USAC aggregates and submits to the FCC. In 2011, to bill and collect the \$8.4 billion in universal service contributions, USAC spent approximately \$3.0 million.

USAC's Administration of Universal Service Funds

An important responsibility of USAC is to support FCC efforts to protect the integrity of universal service funds. We work hard to make sure we collect correct amounts from carriers and disburse correct amounts to eligible beneficiaries for allowable purposes. We do this in many ways, from reviewing information submitted by contributors and beneficiaries to assessing

details about individual payments to full-scale audits of contributors and beneficiaries. These measures are designed to verify the accuracy of data used in calculating collections and disbursements, the eligibility of supported goods and services, and participants' compliance with all program requirements. A Memorandum of Understanding between the FCC and USAC defines the roles and responsibilities of each party in overseeing and carrying out universal service administration, and it contains detailed operational and reporting requirements.

Once USAC disburses money to beneficiaries, we want to validate that the payments were properly made. To this end, working with the FCC and OMB, we launched in 2010 a Payment Quality Assurance (PQA) Program. PQA is designed to provide estimates of improper payment rates in all four programs, as required by the Improper Payments Elimination and Recovery Act (IPERA). Under this program, USAC assesses a statistically valid sample of individual payments made to beneficiaries to determine if these payments were made in accordance with FCC rules. Based on these assessments, an independent statistician calculates estimates of improper payment rates for whole programs and reports this information to the FCC. USAC also uses the results as a basis, when appropriate, to improve internal procedures associated with improper payments and provide outreach support to beneficiaries. Results for 2011, based on 1,600 assessments, show improper payment rates in the High Cost Program of 0.11%, the Low Income Program of 0.23%, the Rural Health Care Program of 1.7%, and the Schools and Libraries Program of 0.94%. USAC spent \$1.3 million on this activity in 2011.

Since USAC started operations, we have conducted audits of beneficiaries and contributors. Shortly after the 2010 PQA launch, again in close consultation with the FCC, we implemented our current audit program, the Beneficiary and Contributor Audit Program (BCAP). Under BCAP in 2011, USAC completed 79 audits examining \$1.7 billion in universal

service funding, including \$1.68 billion in contributions and \$20 million in disbursements.

When fully implemented, BCAP will give USAC the capacity to conduct up to 343 audits each year. As with PQA, results will shape corrective actions for both auditees and USAC.

Measures to Assess Expenses and Operations

Outside auditors have consistently delivered clean opinions on USAC's finances and procedures, including both financial operations and programmatic activities. Over the last three years, USAC's internal audit team has performed audits of USAC operations in many areas. In all cases, the audits concluded that sufficient controls were in place.

In the last four years, USAC has significantly revised and upgraded its internal controls review program, in compliance with the principles of OMB Circular A-123. Program staff members have incorporated these controls into operational activities to enhance the security and accuracy of procedures that define how we handle the information we gather and the funds we collect and distribute. In 2011, the USAC internal controls team assessed the risks associated with 15 financial and operational business processes and tested 90 key controls. No material weaknesses were identified as a result of the testing.

The Government Accountability Office (GAO) has recommended that USAC and the FCC conduct robust assessments of risks in the Schools and Libraries Program and the Low Income Program. USAC is working with the FCC to identify independent contractors to carry out these risk assessments and expects to use the results as a basis for efforts to strengthen further the internal controls already in place.

Thank you for the opportunity to appear before you today. I would be happy to respond to any questions you may have.

**Summary of Testimony by D. Scott Barash, USAC Acting Chief Executive Officer
House Subcommittee on Communications and Technology
February 16, 2012**

USAC's administrative function:

- Independent, not-for-profit corporation created in 1997 to administer the universal service support mechanisms.
- Collecting FCC-mandated contributions from telecommunications carriers and distributing these funds to beneficiaries in the four universal service programs: High Cost, Low Income, Rural Health Care, and Schools and Libraries.
 - In 2011, USAC collected \$8.4 billion in contributions from telecommunications carriers and disbursed \$8.1 billion to beneficiaries.
 - Spent \$106.9 million to collect and distribute these funds, generating an administrative expense rate of 1.34%.

Calendar year 2011 disbursements and beneficiaries:

- High Cost Program: \$4.0 billion to 1,903 companies in support of 110 million lines.
- Low Income Program: \$1.7 billion to 2,025 companies providing discounted telephone service to 13.7 million households eligible for support.
- Rural Health Care Program: \$81.5 million to 472 companies serving 3,088 eligible health care providers; \$54.3 million to beneficiaries of the Rural Health Care Pilot Program.
- Schools and Libraries Program: \$2.2 billion to 4,165 companies providing services to tens of thousands of schools and libraries in all states and territories of the U.S.

Measures to protect the integrity of universal service funds:

- Payment Quality Assurance Program generates estimates of improper payment rates:
 - High Cost Program, 0.11%; Low Income Program, 0.23%; Rural Health Care Program, 1.7%; Schools and Libraries Program, 0.94%.
- Beneficiary and Contributor Audit Program helps ensure compliance with program rules:
 - In 2011, USAC completed 79 audits examining \$1.7 billion in universal service funding, including \$1.68 billion in contributions and \$20 million in disbursements.
- Audits of USAC's finances and procedures, including both financial operations and programmatic activities.
 - Consistently clean results from outside auditors.
- Extensive internal controls review program, in compliance with the principles of OMB Circular A-123.
 - In 2011, the USAC assessed 15 financial and operational business processes and tested 90 key controls, with no material weaknesses identified.
- Memorandum of Understanding between the FCC and USAC defines operational and reporting requirements.