

AUDIT REPORT

OKLAHOMA CORPORATION COMMISSION

OKLAHOMA UNIVERSAL SERVICE FUND — SPECIAL UNIVERSAL SERVICES

For the time period July 1, 2012 through June 30, 2013



*Independently serving the citizens of
Oklahoma by promoting the
accountability and fiscal integrity of
governmental funds.*



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

**Audit Report of the
Oklahoma Corporation Commission
Oklahoma Universal Service Fund -
Special Universal Services**



Report Highlights

This audit was performed in response to the Oklahoma Corporation Commission's request in accordance with 74 O.S. § 213.2.B.

Oklahoma Corporation Commission

Oklahoma Universal Service Fund: Special Universal Services

Background

The Public Utility Division's (PUD) Telecom department administers the Oklahoma Telecommunications Act, which established the Oklahoma Universal Service Fund (OUSF). A primary purpose of the OUSF is to ensure reasonable and affordable internet access is available to schools and libraries and telemedicine services are available to eligible healthcare entities.

Objective and Scope

The objective for this audit was to assess the eligibility process for special universal services funded through the OUSF.

The scope of this audit included all telecommunication carriers requesting reimbursement for telemedicine services provided to health care entities and telecommunication services provided to public schools and libraries during the period July 1, 2012 through June 30, 2013.

What We Found

- The PUD increased accountability and reduced risk by hiring additional staff and performing eligibility redeterminations on health care entities as authorized by House Bill 2738. A redetermination process has not been implemented for schools and libraries receiving services primarily due to staffing limitations.
- 5% of healthcare entities' files reviewed did not contain adequate supporting documentation to ensure eligibility.
- Unorganized documentation hindered our review of eligibility redetermination documentation.
- An official, complete listing of schools and libraries receiving OUSF-special universal services does not exist.
- Management does not document their review of eligibility determinations.
- Providing special universal services funding to ineligible recipients could lead to increased fees for telecommunication consumers.

GARY A. JONES, CPA, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

BACKGROUND

The Oklahoma Telecommunications Act of 1997 (**17 O.S. §139.101 through 109**) established the Oklahoma Universal Service Fund (OUSF) (**17 O.S. § 139.106**). The OUSF is funded by collections from telecommunications carriers based on a percentage of their operating revenue. Carriers are allowed to recover these charges from their retail

Surcharges and Other Fees	
7. Administrative Fee	0.61
8. Federal Universal Service Charge	3.09
9. Oklahoma Universal Service	0.29
10. Regulatory Cost Recovery Charge	0.28
Total Surcharges and Other Fees	4.27

customers which most often appear as a *Universal Service Charge* on the customers' bills. Although these are not state funds, the Oklahoma Corporation Commission (OCC) regulates these collections.

Source: Excerpt from customer's bill

A primary purpose of the OUSF is to ensure that reasonable and affordable internet access is available to schools and libraries and that telemedicine services are available for eligible healthcare entities. The telecommunication carriers providing these services seek reimbursement from the OUSF via the OCC - Public Utility Division's (PUD) Telecom department.¹

The OUSF supports three main programs: special universal services,² primary universal services,³ and Oklahoma Lifeline.⁴ Because the special universal services program accounted for 75% of OUSF total fiscal year (FY) 13 expenditures⁵ and the requested reimbursements for providing these services increased 65% over the past five years, our audit procedures focused on this program.

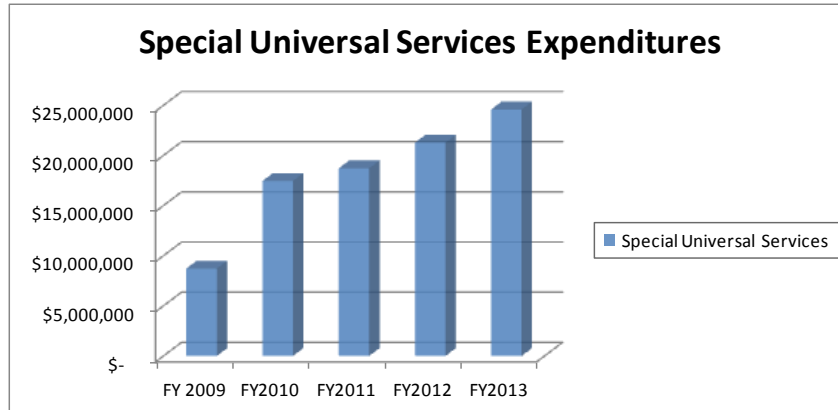
¹ **17 § 139.107 (B.)** requires the OCC to administer the OUSF with OCC employees or by contracting for such services with a party having no conflicting interest in the provision of telecommunication services. Solix, Inc. has been the fund administrator since the inception of the OUSF and provides accounting functions (which includes disbursement of funds) on behalf of the OCC with the remaining duties provided by PUD staff. Using a competitive bid process, OCC selected Graeper, VanNoy and Wagner (GVNW) as their new third party administrator, effective July 1, 2013.

² The purpose of special universal services is to provide toll free phone lines to public schools and libraries, county seats and not-for-profit hospitals. Special universal services also include internet access to public schools and libraries and all telemedicine services for eligible not-for-profit healthcare entities.

³ The purpose of the primary universal services is to provide affordable "plain old telephone service" (an access line and dial tone) in rural and urban areas.

⁴ The purpose of Oklahoma Lifeline is to provide monthly discounts on one telephone service, either wire line or wireless, for qualifying low income customers.

⁵ \$24,585,723 Special Universal Services / \$32,550,614 Total OUSF Expenditures = 75%



Given the rapid growth in the number of healthcare entities, schools, and libraries requesting special universal services, management recognized the need for a consistent and accurate eligibility determination process. However, staffing limitations in the PUD’s Telecom department presented challenges to ensuring accuracy and totality of information provided by applicants. Such challenges prompted PUD management to modify its strategy by increasing the manpower assigned to review applications and validate supporting documentation (PUD staff assigned telecom issues increased from 5.5 employees during FY 10 to 12 employees in FY 13) and by implementing an annual eligibility redetermination process for healthcare entities.

The eligibility determination criteria for special universal services have remained consistent since the inception of the program. However, effective November 1, 2012, House Bill 2738⁶ granted the ability to implement a new redetermination process for all telemedicine⁷ providers, whereby the PUD could *annually* assess providers’ eligibility. Prior to this statutory change, and still in practice for public schools and libraries, once an entity was initially determined eligible to receive special universal services, the telecommunications carrier continued to receive reimbursement from the OUSF absent an evaluation of the entity’s on-going eligibility status.

⁶ 17 O.S. §139.109 E. states, “The Corporation Commission shall have authority to investigate and modify or reject in whole or part a Special Universal Services request under subsection C of this section if the request does not meet the specified criteria, if the Corporation Commission’s investigation determines that the entity has not provided sufficient justification for the requested services, or if the Corporation Commission determines that granting the request is not in the public interest.”

⁷ Oklahoma Administrative Code 165:59-1-4 defines “Telemedicine” as the practice of health care delivery, diagnosis, consultation, treatment, transfer of medical data, or exchange of medical education information by means of audio, video, or data communications. Telemedicine is not a consultation provided by telephone or facsimile machine.

As a result of this legislation, PUD performed eligibility redeterminations for 407 health care entities during FY 13:

- 90 or 22% healthcare entities/telemedicine lines were not recertified;
- 144 or 35% healthcare entities were approved with reduced bandwidth⁸;
- 173 or 43% healthcare entities were approved at the same bandwidth.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objective The objective of this audit was to assess the eligibility process⁹ for special universal services funded through the OUSF.

Scope The scope of this audit included all telecommunication carriers requesting reimbursement for telemedicine services provided to health care entities and telecommunication services provided to public schools and libraries during the period July 1, 2012 through June 30, 2013.

Methodology An understanding of the OUSF and specifically special universal services was obtained through discussion with PUD management and staff; review of relevant state laws, Oklahoma Administrative Code, OCC administrative procedures and best practices associated with eligibility determination; and identification of significant internal controls.

We tested those controls through a representative, random sample of 60¹⁰ telemedicine providers' recertification applications and supporting documentation to ensure the PUD: evaluated the requests against defined criteria; implemented an application process requiring supporting documentation and an independent verification of that support; and implemented an eligibility redetermination process.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objective.

⁸ Bandwidth is defined as the amount of data that can be carried from one point to another in a given time period (usually a second).

⁹ Because reimbursement associated with special universal services are allowed for eligible entities only, we felt evaluating the eligibility process, prior to other aspects of the program, was the logical operation to review initially.

¹⁰ PUD represents there are 407 health care entities receiving telemedicine services. Our sample of 60 was selected from this population. We do not have a feasible method of verifying the completeness of this data.

AUDIT RESULTS

Conclusion

The PUD made positive changes to improve the eligibility process for special universal services funded through the OUSF. PUD staff should continue to improve the eligibility process through modification of the application to include public schools and libraries in the eligibility re-determination process and by increasing the transparency of the eligibility documentation.

FINDINGS AND RECOMMENDATIONS

Lack of an official, complete listing of public schools and libraries receiving special universal services increases risks

An effective internal control system provides accurate and reliable records. The PUD does not maintain an official, complete listing of public schools and libraries receiving special universal services and the associated funding. PUD's third party vendor responsible for disbursing OUSF funds was not contractually required to maintain this information and did not do so. Absent of accurate and reliable records, funding could be provided to carriers for ineligible services.

Recommendation

With the aid of the appropriate telecommunications carriers, PUD should identify each school and library receiving special universal services and formulate an official, complete listing of all applicable data.

Views of Responsible Officials

The telecom management team has internally reviewed many areas of concern over the last year. This review included concerns over consistency and transparency. As part of that finding, PUD decided a new bid was necessary for Fund Manager services. As part of the transition to a new Fund Manager, PUD has issued data requests to all companies to develop the referenced database. A full time employee was hired and committed to the database development in July 2013. The database framework will be completed by February 1, 2014 and data integrity will be confirmed through the School and Library re-certification program. The first of three phases of re-certification will conclude no later than October 2014.

An eligibility redetermination process for public schools or libraries does not exist

An effective eligibility determination process ensures information provided by the applicant is accurate and complete.

17 O.S. § 139.109 C. 4. allows schools and libraries to receive one free access line with the ability to connect to an internet service provider at 1.5 Mbps¹¹ per building. On behalf of the school to which the services are provided, the telecommunication carrier submits an application to the PUD. A determination of eligibility allows the carrier to receive a perpetual or on-going reimbursement, unless the school's needs change, such as construction of a new building.

Prior to FY 11, PUD assigned one staff member to perform *all* eligibility determinations for special universal services. As a result, the amount of time and resources devoted to validating the actual number of buildings that were internet accessible was limited and performing an annual redetermination was not feasible.

As discussed earlier in this report, PUD-Telecom staff was increased to allow for an improved process related to telemedicine services' information; however, these resources may be insufficient to address the deficiency in the eligibility process related to school and library services.

Without ensuring information is complete and accurate, funding may be provided to carriers for ineligible services. If funding resources are not used in an appropriate manner, the availability of funds to other entities may be reduced or an increase in fees may be assessed on telecommunication service users.

Recommendation

PUD should implement policies and procedures to ensure eligibility is redetermined on a cyclical basis. Staff increases likely would be necessary to ensure that supporting documentation is complete and accurate.

Views of Responsible Officials

In the previous year under a new Director, PUD has developed a recertification program for schools and libraries and will begin review of previously approved schools and libraries by March 2014. This process will work similar to the telemedicine recertification process. Once the initial recertification is completed, the entities will be recertified on a cyclical basis, which is currently anticipated to be every third year. PUD

¹¹ Mbps is defined as "Megabits per second" and is used to identify the number of bits of data that a network connection can transfer per second.

management has increased the staffing in the core area and is currently evaluating the need for additional auditors to assist in this program. In the meantime, additional analysts have been cross-trained to assist in OUSF- related cases as needed.

Missing documentation was noted in health care entity files

To ensure a healthcare entity meets the definition of a not-for-profit hospital, PUD developed a process requiring the entity to submit a current copy of their 'hospital license' maintained by the Oklahoma Department of Health.

During procedures performed on 60 randomly-selected health care entities' recertification applications and supporting documentation, we determined three entities did not provide a copy of their hospital license. The recertification process did not identify this oversight.

Without complete supporting documentation, an ineligible entity could receive special universal services.

Recommendation

PUD should continue the current practice of ensuring that complete and accurate supporting documentation is provided for all applications. The use of a standard eligibility "checklist" program is an appropriate addition to this process toward ensuring all elements of documentation are received and reviewed.

Views of Responsible Officials

PUD has updated the desk routine, which includes a step-by-step checklist, to reflect the appropriate documents needed for eligibility.

Documentation used to determine eligibility is not maintained collectively in one location

Transparency and accountability in government programs is critical to maintaining public trust. The initial application and associated supporting documentation should be maintained in a format that is readily accessible and consistent.

Supporting eligibility documentation is scanned into the OCC Imaging System or stored on various OCC network folders. Correlating or corresponding information stored in various locations may give the appearance that data is incomplete and could lead one to question the authenticity of an entity's eligibility.

Recommendation

PUD should develop policies and procedures that provide clear directions for properly documenting, maintaining and managing supporting information for eligibility determinations in a transparent format.

Views of Responsible Officials

Over the past year, PUD has updated all desk routines to clarify the procedure for retaining all data related to active cases and how to properly archive the documents in the future. Copies of all documentation will be retained in the central access folder during the active phase of an application. The documentation will then be imported into the appropriate imaging system for permanent archiving. Integration into the Iron Data system will greatly improve transparency as all Commission employees will be able to easily access the archived information.

An effective internal control system segregates duties and responsibilities among different employees to help reduce the risks of errors or fraud. No one individual should control all key aspects of a transaction or event.

Based on discussions with management and review of eligibility documentation, the PUD analyst determines eligibility without management review. However, management indicated that as of February 1, 2013, during the eligibility redetermination process for health care entities, management began to perform a second review; though no documentation of these reviews was maintained.

Without management or a second review, errors or irregularities could occur and not be detected in a timely manner.

Recommendation

PUD should develop and implement procedures to ensure all eligibility determinations are reviewed by management prior to making a funding recommendation to the Commission.

Views of Responsible Officials

PUD has changed the organization structure within the Telecom area over the past year. Part of the modification was to place a management team that will be responsible for reviewing all recommendations, even if

Management does not document a review of eligibility determinations

filed by a fellow manager. While management has attempted to review all recommendations prior to filing, the process was not clear and there was not a standardized method to document the review. PUD has since updated the Audit Program to clarify that a management review will be performed on all recommendations. The managerial approval will then be maintained in the cause folder and archived accordingly.

Prospective areas for further study

During the course of the audit, the following issues came to our attention. While further procedures related to these issues were not considered within the scope of this objective, these issues merit future study:

- Perform an assessment of the “true-up” process (*carriers currently can request additional funding related to increased bandwidth after an entity has been determined to be eligible for services by an approved Commission order*).
- Conduct a cost analysis of charges of similar services by telecommunication carriers receiving OUSF funds. The amount charged by telecommunication carriers for services may vary based on the geographic location of the entity (e.g. Internet charges may be higher for a school in the northwestern part of the state than for a school in Oklahoma City).
- Evaluate the timeliness requirements (**17 O.S. § 139.106 D**) associated with eligibility determination processing.
- Evaluate the process to comply with amended portions of the Oklahoma Lifeline law (**17 O.S. § 139.105 A. and E. thru I**).



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