FEDERAL COMMUNICATIONS COMMISSION

Fiscal Year 2015
Agency Financial Report

(October 1, 2014 – September 30, 2015)

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Message from the Chairman

I am pleased to present the Federal Communications Commission's (FCC or Commission) Financial Report for Fiscal Year (FY) 2015. The Financial Report provides key financial and performance information to Congress and the American people. As continuing evidence of the FCC's strong commitment to maintaining a culture of accountability for the funds it manages, I am pleased to report that for the tenth consecutive year the FCC has obtained an unmodified opinion on its financial statements. The independent auditor's opinion addresses more than $10.1 billion in revenues, more than $460 million in FCC operating expenses and more than $9.2 billion in outlays for the Universal Service Fund and Telecommunications Relay Service Fund. Despite the positive audit opinion, the independent auditor's report shows that work remains at the FCC to continue to improve the agency's operations so it can deliver on its mission for the American people.

Since becoming Chairman in November of 2013, I have devoted my efforts to approaching the vast array of issues we face under our priorities – promoting economic growth and national leadership, protecting public interest goals, making networks work for everyone, and promoting operational excellence. Thanks to the highly capable team of public servants at the Commission – including my fellow Commissioners Clyburn, Rosenworcel, Pai and O'Rielly – the Commission continues to work hard on issues that will help American consumers, enhance U.S. competitiveness, and improve our innovation economy. Below, I have taken the opportunity to highlight key initiatives from the past year.

Spectrum

Unleashing spectrum for broadband remains one of the Commission's most effective strategies for spurring economic growth and job creation. At the top of our spectrum agenda is the unprecedented Incentive Auction, and we are advancing a number of actions to put us on track for a successful auction in the second quarter of FY 2016. The Incentive Auction will be the most complex in Commission history. In August, the Commission adopted a Public Notice establishing the bidding procedures for the Incentive Auction. The Commission also reaffirmed its Mobile Spectrum Holdings Order, which established a "market-based reserve" of up to 30 megahertz of spectrum per market in the Incentive Auction for bidders that do not currently hold significant amounts of low-band spectrum. Moreover, in advance of the Incentive Auction, the Commission adopted an Order to revamp the outdated spectrum auction bidding policies to help small businesses and rural service providers better compete for the spectrum that is necessary to participate in today's wireless marketplace. At the same time, this Order adopted a series of changes to our rules pertaining to small business bidding credits and other auction procedures to assure that eligible businesses are the true recipients of bidding credits and to update outdated rules that no longer reflect developments in the wireless industry.

I am also pleased to report the success of the AWS-3 auction (Auction 97), which closed in January. This auction made 65 megahertz of spectrum available for wireless broadband to meet consumers' ever-expanding demand, and raised over $40 billion in net revenues.

The Commission also took steps to create a new, innovative spectrum sharing regime in the 3550-3700 MHz band, creating a new 150 megahertz band for wireless broadband.

Open Internet Order

This past year, the Commission adopted the Open Internet Order, which will protect and promote the Internet as a platform for innovation, expression and economic growth. An Open Internet means consumers can go where they want, when they want. It means innovators can develop products and services without asking for permission. In June, the D.C. Circuit denied the request of broadband providers to stay the FCC's Open Internet Order, allowing the rules to go into effect. This is the right outcome to keep the Internet fast, fair and open. Americans now have a referee on the field to deter blocking, throttling, pay-for-priority fast lanes and other behaviors that could harm consumers and innovators. The Court also granted the request for expedited review of the Order. We welcome the accelerated litigation briefing and argument schedule, and we are confident we are on sound legal footing as we move forward.

Mergers

In July, the Commission granted – with conditions – approval of the acquisition of DIRECTV by AT&T Inc. (AT&T). The Commission's decision was based on a careful, thorough review of the record, which included extensive economic analysis and documentary data from the applicants, as well as comments from interested parties. Based on this review, we determined that granting the application, subject to specified conditions, was in the public interest. As part of the merger, AT&T-DIRECTV will be required to expand its deployment of high-speed, fiber optic broadband Internet access service to 12.5 million customer locations and make that service available to E-rate eligible schools and libraries, as well as create a low-income broadband service. In order to bring greater transparency to interconnection practices, the company will be required to submit all completed interconnection agreements to the Commission, along with regular reports on network performance. We also will require an independent officer to help ensure compliance with these and other proposed conditions. These strong measures will protect consumers, expand high-speed broadband availability, and increase competition.

Lifeline and E-rate

One of this Commission's most fundamental responsibilities is to ensure that all Americans have access to vital communications services. We also have a duty to manage public resources in an effective, efficient manner that advances the public interest. This past year, the Commission approved a Notice of Proposed Rulemaking ("NPRM") to reform the FCC's Lifeline program, which proposes to advance both objectives: exploring new ways to expand access to broadband, while strengthening protections against waste, fraud, and abuse. Following a decision to allow participation by low-cost wireless providers, the program almost tripled in size from 2008 (about $784 million) to 2012 (almost $2.2 billion). In 2012 the Commission made significant reforms, including a database that has drastically reduced program abuse caused by multiple Lifeline subscriptions in a household. These reforms helped annual Lifeline spending drop from almost $2.2 billion to $1.7 billion, a 23 percent decrease. Building on the 2012 reforms, the Lifeline reform NPRM proposes to streamline and tighten the process of verifying consumer eligibility by taking it out of the hands of providers. The item also seeks comment on a budget for the program. The NPRM also explores proposals such as adopting minimum service standards for both voice and broadband service; whether broadband should be a required offering of Lifeline providers; and how to encourage more competition to improve prices and services.

On the E-rate front, the Commission improved the program's cost-effectiveness, set specific, ambitious goals for the broadband capacity delivered to schools and libraries – a short term target of 100 Mbps per 1,000 students, and a longer term target of 1 Gbps per 1,000 students – and re-purposed funding for Wi-Fi and robust broadband connections capable of supporting cutting-edge, one-to-one digital learning.

Robocalls

Over the past several years, hundreds of thousands of consumers have made their voices heard by complaining to the Commission about unwanted telephone calls – calls they didn't ask for, that they don't want, and that they can't stop. In fact, complaints under the Telephone Consumer Protection Act (TCPA), the law that makes unwanted robocalls and texts illegal, are together the largest complaint category we have at the Commission. This past year, the Commission moved to modernize our regulations to catch up with today's technology and to protect consumers against unwanted robocalls and spam texts. In a package of declaratory rulings, the Commission affirmed consumers' rights to control the calls they receive. As part of this package, the Commission also made clear that telephone companies face no legal barriers to allowing consumers to choose to use robocall-blocking technology.

Empowering People with Disabilities

Twenty-five years ago, our nation took an historic step toward fulfilling the fundamental American promise of opportunity for all when we adopted the Americans with Disabilities Act (ADA). The ADA also set the stage for other critical disability laws. The FCC has played a key role in implementing these important civil rights laws and in harnessing the power of communications technology to improve the lives of Americans with disabilities. The efforts we have already undertaken have had valuable impacts, including improvements to closed captioning and enabling text-to-911 calls. Last May, we adopted rules to ensure individuals who are blind or visually impaired can quickly access critical information shown on television in the event of an emergency, and we expanded the iCanConnect Program to provide communications for Americans who are deaf and blind. We also have continued to work with other federal agencies—and with private sector companies—to embrace this capability.

Throughout the year, we continued efforts to harness the power of the Web to create an open IP-based platform for innovative applications to attack the challenges of individuals with disabilities.

Process Reform

Since I arrived at the Commission, improving the way this agency does business has been one of my highest priorities. We immediately conducted a top-to-bottom review to identify areas in need of reform, and we have subsequently taken a series of efforts to create a leaner, more efficient, more productive, and more transparent organization. Currently, there are ten active working groups, as well as teams tackling backlogs, streamlining, IT upgrades and many other process reform objectives within the individual Bureaus and Offices. Thanks to these efforts, we're making decisions faster, increasing speed of disposal on routine matters, expanding electronic filing and distribution, decreasing backlogs, and improving responsiveness to consumers.

Field and IT Modernization

One area that presented real challenges and opportunities for improvement was our field activities. It's been more than 20 years since we last examined our Enforcement Bureau's field structure. Many forms of technology commonly used today didn't exist or weren't widely available back then. Another significant change is a reduction in Commission resources, which necessitated a review of field staffing and priorities.

The Commission adopted a field modernization plan that will allow our field operations to do more with less. The resulting plan reflects the review team's thorough, data-driven analysis and concentrates field resources where they are needed most -- areas with the greatest spectrum density. It refocuses field staff on the resolution of public safety and other interference issues. The reorganization streamlines field management, and ensures that all field agents are capable of resolving the complex interference issues posed by new, expanded, and shared uses of spectrum. Once implemented, this plan will save millions of dollars annually. We'll apply these savings to modernize the equipment used by the field so they can handle the interference issues in the new shared spectrum environment.

Within the FCC, our Information Technology team is on track to modernize our infrastructure, information, and communications technologies. Historically, we have used many legacy custom-developed IT systems that are expensive to maintain, and do not offer state-of-the art capabilities. We are now leveraging cloud service offerings to the fullest extent possible, ensuring the service providers meet all government requirements for security, privacy, and reliability. For example, in 2015, the new FCC Consumer Help Desk was delivered for one sixth the cost of a traditional development model, with significantly lower maintenance costs. In September 2015, we successfully moved all remaining legacy servers from our headquarters to a commercial provider. This move will reduce the costs to maintain the systems, improve their resiliency, and allow us to shift many of our legacy applications to the cloud. Moving forward, the FCC's Information Technology team will be leading the Commission's shift to a data centric approach that allows efficient access and interpretation of data to support the regulatory, enforcement, consumer engagement, and licensing missions across the organization's Bureaus and Offices.

Again, I appreciate the opportunity to present this Financial Report and look forward to providing future updates on the Commission's efforts in accomplishing the critical work toward achieving my vision for the FCC.

Tom Wheeler
Chairman
November 13, 2015

1. Management's Discussion and Analysis

(Unaudited)

Overview of the FCC

INTRODUCTION

Revised Office of Management and Budget (OMB) Circular No. A-136, released on August 4, 2015, states that agencies may choose to produce either a consolidated Performance and Accountability Report or a separate Agency Financial Report (AFR) with an Annual Performance Report (APR). The Federal Communications Commission (Commission or FCC) has chosen to produce the AFR as an alternative to the consolidated Performance and Accountability Report. The FCC will include its Fiscal Year (FY) 2015 APR with its Congressional Budget Justification and will post it on the Commission's website at http://www.fcc.gov/encyclopedia/fcc-strategic-plan in February of 2016.

The AFR includes three sections. AFR Section 1 contains Management's Discussion and Analysis (MD&A) which presents an overview of the FCC, including the agency's mission and organizational structure, map of field offices, strategic goals, strategies and resources to achieve goals, components for financial statement purposes, eliminating and recovering improper payments, performance highlights, management assurances, discussion of its financial management systems strategy, and a financial discussion and analysis.

AFR Section 2 contains the agency's financial information. This section contains the letter from the Chief Financial Officer (CFO) summarizing planned timeframes for correcting audit weaknesses and non-compliances, major impediments to correcting audit weaknesses and non-compliances, and progress made in correcting previously reported problems. Additionally, this section contains the independent auditor's reports, the Commission's response to the independent auditor's reports, the consolidated financial statements, the notes to the financial statements, and required supplementary information.

AFR Section 3 presents other information such as a summary of financial statement audit results, a summary of management assurances, details on reporting improper payments pursuant to the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, management and performance challenges from the Office of Inspector General, and management's response to such challenges.

ABOUT THE FCC

The FCC is an independent regulatory agency of the United States (U.S.) Government. The Commission was established by the Communications Act of 1934 and is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The Commission also regulates telecommunications services for hearing-impaired and speech-impaired individuals, as set forth in Title IV of the Americans with Disabilities Act (ADA). The Commission's headquarters is located in Washington, D.C., with three regional offices, sixteen district offices, and eight resident agent offices throughout the nation.

Five Commissioners direct the work of the FCC. All five Commissioners are appointed by the President and confirmed by the Senate for five-year terms, except when filling the unexpired term of a previous Commissioner. Only three Commissioners can be of the same political party at any given time and none can have a financial interest in any company or entity that has a significant interest in activities regulated by the Commission. The President designates one of the Commissioners to serve as Chairman.

The Chairman and the Commissioners are:

- Chairman Tom Wheeler
- Commissioner Mignon Clyburn
- Commissioner Jessica Rosenworcel
- Commissioner Ajit Pai
- Commissioner Michael O'Rielly

Pictured from left to right are Commissioner Pai, Commissioner Clyburn, Chairman Wheeler, Commissioner Rosenworcel, and Commissioner O'Rielly.

MISSION AND ORGANIZATIONAL STRUCTURE

As specified in section 1 of the Communications Act, the Commission's mission is to "…make available, so far as possible, to all the people of the United States, without discrimination on the basis of race, color, religion, national origin, or sex, a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges."[1] In addition, section 1 provides that the Commission was created "for the purpose of the national defense" and "for the purpose of promoting safety of life and property through the use of wire and radio communication."[2]

The FCC Chairman leads the Commission as head of the agency. In order to accomplish its strategic plan, the FCC is organized by function. There are seven Bureaus and ten Offices. The seven Bureaus and

[1] 47 U.S.C. § 151.

[2] *Id.*

the Office of Engineering and Technology process applications for licenses to operate facilities and provide communication services (in specific locations and on specific radio frequencies), analyze complaints from citizens and other licensees, conduct investigations, develop and implement regulatory programs, and liaison with consumers, regulated entities, State, local, tribal, and foreign governments. Generally, the nine other Offices provide specialized support services. Bureaus and Offices regularly join forces and share expertise in addressing FCC-related issues.

The Bureaus

- The Consumer and Governmental Affairs Bureau develops and implements the FCC's consumer policies, including disability access and policies affecting Tribal nations. The Bureau serves as the public face of the Commission through outreach and education, as well as through the Consumer Center, which is responsible for responding to consumer inquiries and complaints. The Bureau also maintains collaborative partnerships with state, local, and Tribal governments in such critical areas as emergency preparedness and implementation of new technologies.

- The Enforcement Bureau enforces the provisions of the Communications Act, the Commission's rules, orders, and various licensing terms and conditions. The Bureau's mission is to investigate and respond quickly to potential unlawful conduct to ensure: (1) consumer protection in an era of complex communications; (2) a level playing field to promote robust competition; (3) efficient and responsible use of the public airwaves; and (4) strict compliance with public safety-related rules.

- The International Bureau administers the Commission's international telecommunications and satellite programs and policies, including licensing and regulatory functions. The Bureau promotes pro-competitive policies abroad, coordinates the Commission's global spectrum activities, and advocates U.S. interests in international communications and competition.

- The Media Bureau oversees broadcast radio and television, as well as cable and satellite services on behalf of consumers. It also administers licensing and policy matters for broadcast services and cable, and handles post-licensing matters for satellite services.

- The Public Safety and Homeland Security Bureau is responsible for developing, recommending, and administering the agency's policies pertaining to public safety communications issues. The Bureau supports and advances initiatives that further strengthen and enhance the security and reliability of the nation's communications infrastructure and public safety and emergency response capabilities that will better enable the FCC to assist the public, first responders, law enforcement, hospitals, the communications industry, and all levels of government in the event of a natural disaster, pandemic, or terrorist attack.

- The Wireless Telecommunications Bureau develops and executes policies and procedures for fast, fair licensing of all wireless services, from fixed microwave links to amateur radio to mobile broadband services. The Bureau oversees nearly two million licenses, conducts auctions to award licenses, and manages the tower registration process. The Bureau also produces an annual assessment of the wireless industry – the Mobile Wireless Competition Report – and manages interactive web tools such as the Spectrum Dashboard, which delivers key information to the public on wireless services in a simple, transparent fashion.

- The Wireline Competition Bureau works to ensure that all Americans have access to robust, affordable broadband and voice services. Its programs help ensure access to affordable communications for schools, libraries, health care providers, and rural and lifeline consumers. It works to protect consumers and foster competition, especially for the services that small businesses need, and ensures a sustainable policy framework for competitors that rely on the facilities of others. It reviews communications industry transactions and conducts rulemakings and proceedings to ensure the availability of key inputs for communications providers, such as access to utility poles and rights of way. And it provides the public with accurate and comprehensive data about communications services, including broadband.

The Offices

- The Office of Administrative Law Judges is composed of one judge who presides over hearings and issues decisions on matters referred to him by the Commission. The hearing function includes acting on interlocutory requests filed in the proceedings such as petitions to intervene, petitions to enlarge issues, and contested discovery requests.

- The Office of Communications Business Opportunities serves as the principal advisor to the Chairman and the Commissioners on issues, rulemakings, and policies affecting small businesses, women, and minority-owned communications businesses. It also represents the FCC in various matters coordinated with the U.S. Small Business Administration, including those involving the Regulatory Flexibility and Small Business Acts.

- The Office of Engineering and Technology manages the spectrum and provides leadership to create new opportunities for competitive technologies and services for the American public.

- The Office of General Counsel serves as the chief legal advisor to the Commission and its various bureaus and offices. The Office of General Counsel also represents the Commission in litigation, recommends decisions in adjudicatory matters before the Commission, assists the Commission in its decision-making capacity, and performs a variety of legal functions regarding internal and other administrative matters.

- The Office of Inspector General provides objective and independent investigations, audits, and reviews of the FCC's programs and operations. The Office provides recommendations to detect and prevent fraud, waste, and abuse in FCC programs and operations. The Inspector General reports the results of investigations, audits, and reviews semi-annually to the Chairman and to the Congress. These reports, in turn, assist the Chairman, Commissioners, and the United States Congress in becoming fully informed of all programmatic and operational deficiencies at the FCC. The Inspector General reports to, and is under the general supervision of the FCC Chairman.

- The Office of Legislative Affairs serves as the liaison between the FCC and Congress, as well as other federal agencies. This Office provides lawmakers with information regarding FCC regulatory decisions, answers to policy questions, and assists with constituent concerns. The Office also prepares FCC witnesses for Congressional hearings, and helps create FCC responses to legislative proposals and Congressional inquiries.

- The Office of Managing Director is responsible for the administration and management of the Commission. Specifically, the Office manages: the Commission's budget and financial programs; human resources; contracts and purchasing; communications and information technology services; physical space; security; the Commission meeting schedule; and distribution of official FCC documents.

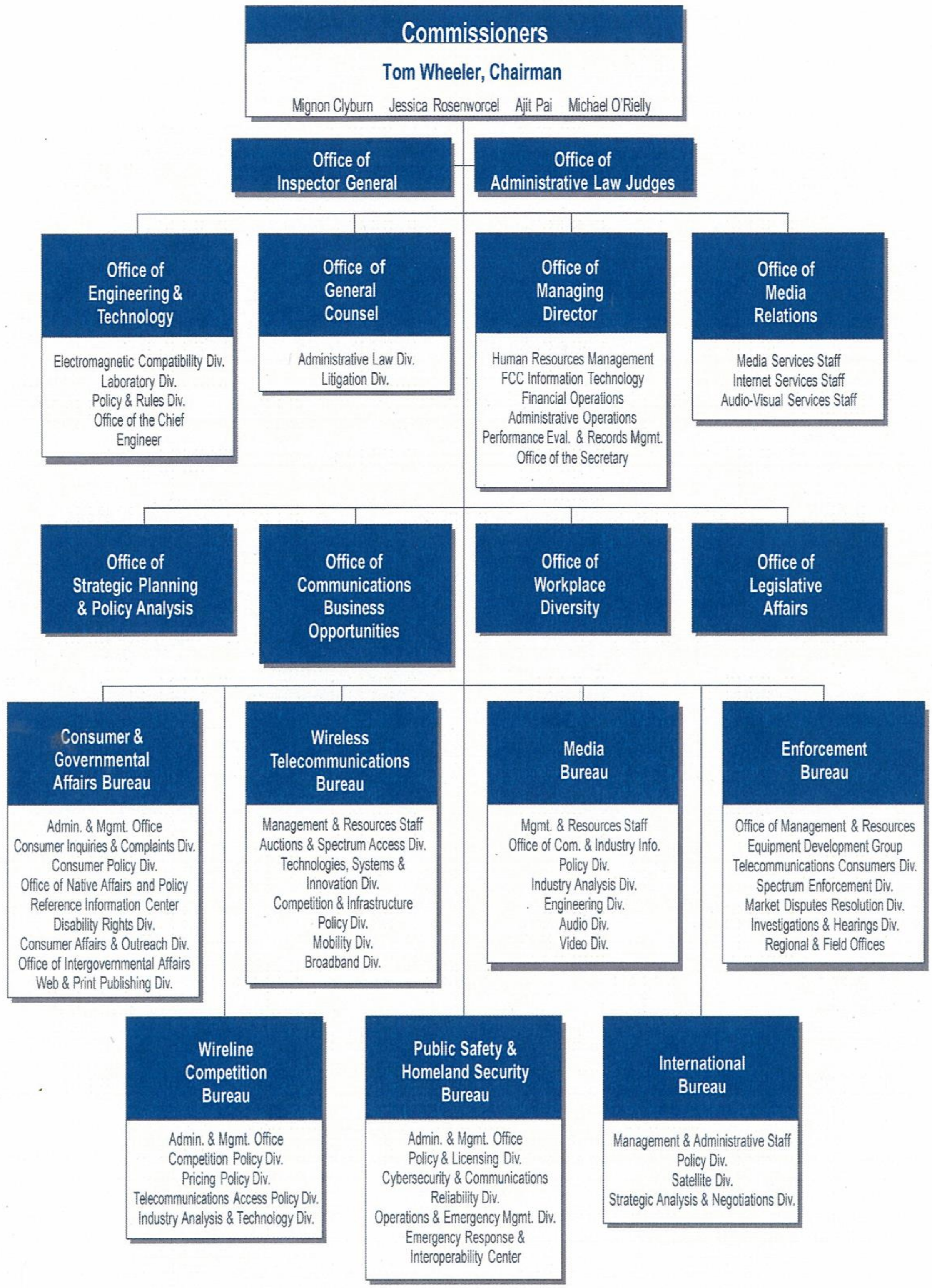
- The Office of Media Relations is responsible for disseminating information on Commission issues. It coordinates news media requests for information and interviews on FCC proceedings or activities. The Office also facilitates the release of all Commission announcements, orders, and other information. Furthermore, it manages the FCC Daily Digest, the FCC webpage, and the FCC Audio Visual Center.

- The Office of Strategic Planning and Policy Analysis advises the Chairman, Commissioners, Bureaus, and Offices on the agency's plans and policies. It also provides research, advice, and analysis of advanced, novel, and non-traditional communications issues.

- The Office of Workplace Diversity ensures that the FCC provides employment opportunities for all persons regardless of race, color, sex, national origin, religion, age, disability, or sexual preference.

Additional information on specific Bureau and Office responsibilities can be found in Title 47 of the Code of Federal Regulations and on the Commission's web site at: http://www.fcc.gov.

ORGANIZATIONAL CHART



MAP OF FIELD OFFICES

STRATEGIC GOALS

The FCC is responsible to Congress and the American people for ensuring an orderly policy framework within which communications products and services can be efficiently and effectively provided to consumers and businesses. Equally important, the FCC must also address the communications needs of public safety, health, and emergency operations; ensure the universal availability of basic telecommunications service; make communications services accessible to all people; and protect and empower consumers in the communications marketplace. The FCC, in accordance with its statutory authority and in support of its mission, has established eight strategic goals. They are:

Strategic Goal 1: Connect America

Maximize Americans' access to – and the adoption of – affordable fixed and mobile broadband where they live, work, and travel.

Strategic Goal 2: Maximize Benefits of Spectrum

Maximize the availability of spectrum in order to provide diverse and affordable communications services to consumers.

Strategic Goal 3: Protect and Empower Consumers

Empower consumers by ensuring that they have the tools and information they need to make informed choices in their use of communications services; protect consumers from harm in the communications market.

Strategic Goal 4: Promote Innovation, Investment, and America's Global Competitiveness

Ensure that all lawful content can be provided, and accessed, without artificial barriers; promote innovation in a manner that improves the nation's ability to compete in the global economy, creating a virtuous circle that results in more investment and in turn enables additional innovation.

Strategic Goal 5: Promote Competition

Ensure a competitive market for communications and media services to foster innovation, investment, and job creation, and to ensure consumers have meaningful choice in affordable services.

Strategic Goal 6: Public Safety and Homeland Security

Promote the availability of reliable, interoperable, redundant, rapidly restorable critical communications infrastructures that are supportive of all required services.

Strategic Goal 7: Advance Key National Purposes

Through international and national interagency efforts, advance the use of broadband for key national purposes.

Strategic Goal 8: Operational Excellence

Make the FCC a model for excellence in government by effectively managing the Commission's human, information, and financial resources; by basing decisions based on sound data and analyses; and by maintaining a commitment to transparent and responsive processes that encourage public involvement and best serve the public interest.

STRATEGIES & RESOURCES TO ACHIEVE GOALS

The Commission has identified strategies and resources to achieve its performance goals for each strategic goal. Details on the Commission's strategies and resources for achieving its strategic goals are included in the Commission's strategic plan at: http://www.fcc.gov/encyclopedia/fcc-strategic-plan.

COMPONENTS OF THE FCC FOR FINANCIAL STATEMENT PURPOSES

In addition to the activities directly undertaken by the above bureaus and offices, the Commission components for financial statement purposes include:

Universal Service Fund (USF) - The Telecommunications Act of 1996 further amended the Communications Act of 1934 to codify and modify the Commission's longstanding policy of promoting universal telecommunications service throughout the nation. Pursuant to section 254, the Commission established rules and regulations governing how certain telecommunications service providers contribute to the USF and how those monies are disbursed.[3]

For budgetary purposes, the USF comprises five elements that consist of four universal service support mechanisms and the Telecommunications Relay Service (TRS) Fund. The TRS Fund represents a program established under section 225 of the Act. This statute provides for a mechanism to support relay services necessary for telecommunications access by speech or hearing impaired populations.[4]

The Universal Service Administrative Company (USAC) administers the four universal service support mechanisms of the USF under the Commission's direction. These support mechanisms are funded through mandatory contributions from U.S. telecommunications service providers, including local and long distance phone companies, wireless and paging companies, payphone providers, and providers of interconnected Voice over Internet Protocol (VoIP) services. The four universal service support mechanisms are: High Cost, Lifeline, Rural Health Care, and Schools and Libraries. These support mechanisms provide money directly to service providers to defray the cost of serving customers in high cost and rural areas, and to defray the costs of serving low income consumers as well. In addition, these mechanisms provide support for discounts to schools and libraries and rural health care providers. In FY 2015, the USF accounted for approximately $8,775 million in new available funds on the Commission's Combined Statement of Budgetary Resources. Additional information on USAC and the USF, respectively, can be found at http://www.usac.org and http://www.fcc.gov/wcb/tapd/universal_service.

Rolka Loube, LLC (RL) is the administrator for the TRS fund. The TRS Fund compensates TRS providers for the reasonable costs of providing interstate telephone transmission services that enable a person with a hearing or speech disability to communicate with a person without hearing or speech disabilities. The costs of providing interstate TRS are recovered from subscribers of interstate telecommunications services. In FY 2015, TRS accounted for approximately $847 million in new available funds on the Commission's Combined Statement of Budgetary Resources. Additional information on RL and TRS can be found at http://www.rolkaloube.com/ and http://www.fcc.gov/cgb/dro/trs.html.

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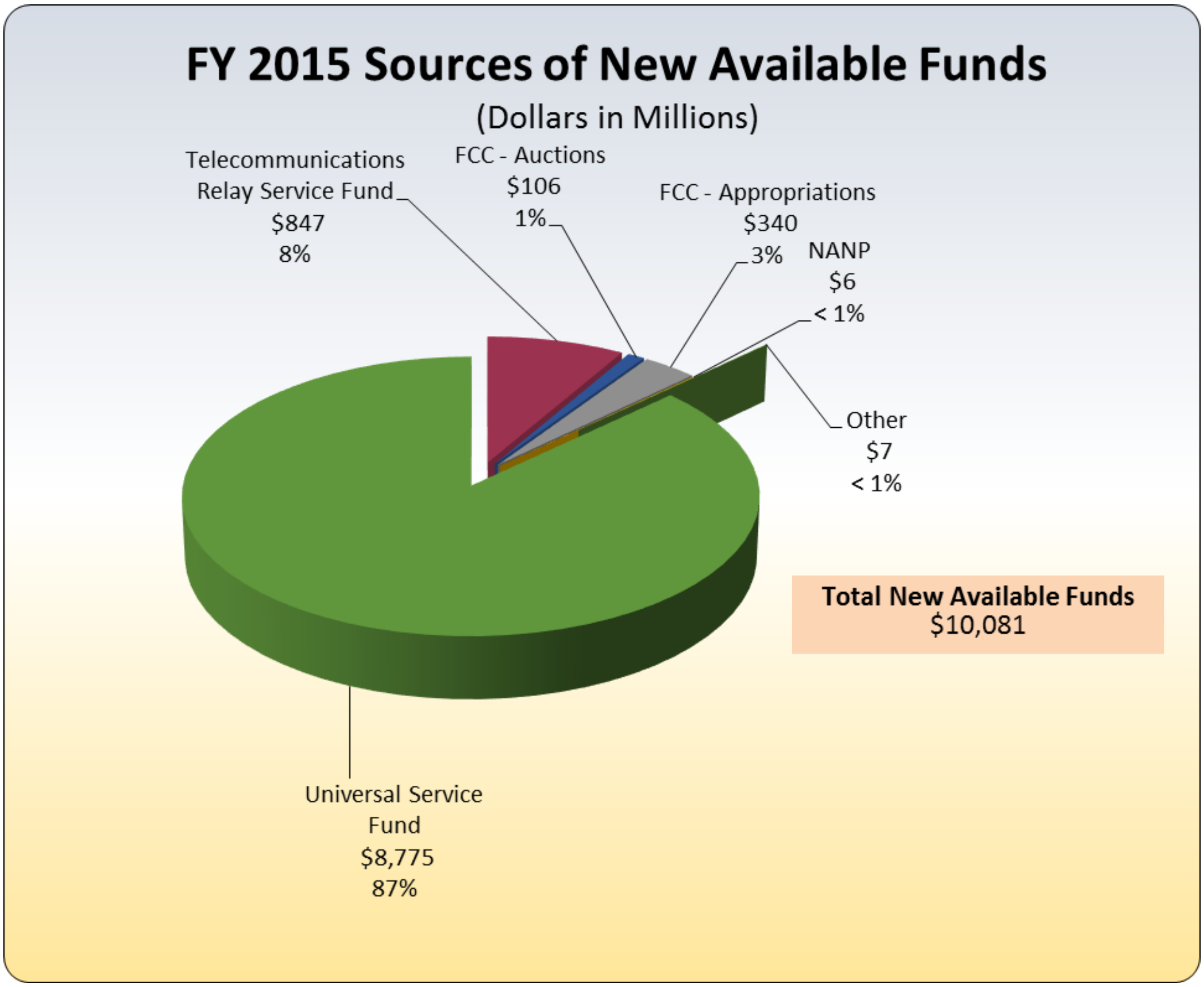
[3] 47 U.S.C. § 254.
[4] 47 U.S.C. § 225.

North American Numbering Plan (NANP) - The NANP is the basic numbering scheme permitting interoperable telecommunications service within the U.S., Canada, Bermuda, and most of the Caribbean. Section 251(e)(1) of the Act requires the Commission to create or designate one or more impartial entities to administer telecommunications numbering and to make such numbers available on an equitable basis. Section 251(e)(2) of the Act requires that the costs of number administration and number portability be borne by all telecommunications carriers on a competitively neutral basis, as determined by the Commission. In implementing section 251, the Commission appointed a NANP Administrator (NANPA), a national Pooling Administrator (PA) to administer thousands block number pooling, and Welch, LLP as the Billing and Collection Agent. In FY 2015, the NANP accounted for approximately $6 million on the Commission's Consolidated Statement of Net Cost. Additional information on the NANPA and the Billing and Collection Agent can be found at http://www.fcc.gov/wcb/cpd/numbering/ and http://www.nanpa.com.

For further clarification on the financial relationships between the Commission and these components, see Note 1 of the financial statements in Section 2. Also, see the chart below which shows the relative size of the component funds in comparison to the major sources of funds for the Commission.



The Appropriations figure of $340 million in the chart above reflects the authority for the Commission to collect regulatory fees.

ELIMINATING AND RECOVERING IMPROPER PAYMENTS

In accordance with the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, the Commission has made significant efforts to implement policies and procedures to strengthen internal controls that prevent improper payments. In addition, the Commission initiated a payment recapture program, completing audits involving overpayments and testing transactions for overpayments. Section 3 provides further details on these efforts.

Performance Highlights

he Commission's eight strategic goals serve as guidance directing the actions and performance of the agency. The Commission assesses its performance through the accomplishment of its performance goals. Progress toward accomplishing these goals is measured by the progress and completion of various programs and initiatives during the fiscal year. There are external influences, including economic, legal, budgetary, and organizational factors beyond the Commission's programs and initiatives that may influence whether the Commission fully meets every performance goal.

During the past fiscal year, the Commission made significant progress toward accomplishing its performance goals. Greater detail on these accomplishments will be discussed in the Commission's Annual Performance Report (APR) for FY 2015. The Commission will include the FY 2015 APR with its Congressional Budget Justification for FY 2017 and will post it on the Commission web site at https://www.fcc.gov/encyclopedia/fcc-strategic-plan in February 2016. In the discussion below, we identify achievements in the Commission's major initiatives during the past fiscal year, organized by Strategic Goal.

CONNECT AMERICA

Maximize Americans' access to and the adoption of affordable fixed and mobile broadband where they live, work, and travel.

For several years, the Commission has recognized that broadband deployment in the United States, especially in rural areas, is failing to keep pace. In this fiscal year, the FCC took significant steps to align its policymaking with marketplace trends, encourage the deployment of broadband networks, and facilitate broadband adoption.

In its 2015 Broadband Progress Report, the FCC updated its advanced broadband benchmark speeds to 25 megabits per second (Mbps) for downloads and 3 Mbps for uploads, to reflect advances in technology and the evolution of the marketplace. Using this updated benchmark, the 2015 report finds that 55 million Americans (17 percent of the population) lack access to advanced broadband. Moreover, a significant digital divide remains between urban and rural America. Over half of all rural Americans lack access to 25 Mbps/3 Mbps service. The divide is even greater on Tribal lands and in U.S. territories, where nearly 2/3 of residents lack access to today's speeds. Thirty five percent of schools across the nation still lack access to fiber networks capable of delivering the advanced broadband required to support today's digital-learning tools. While significant progress in broadband deployment has been made, due in part to the Commission's action to support broadband through its Universal Service Fund ("USF") programs, these advances are not occurring broadly enough or quickly enough. The report concludes that more work needs to be done by the private and public sectors to expand robust broadband to all Americans in a timely way.

With respect to its USF programs, the Commission stated in an Order adopted this fiscal year that broadband networks that are supported by the Connect America Fund ("CAF") must be capable of delivering the same speeds that 99% of urban Americans enjoy. Specifically, the FCC will require companies receiving CAF funding for fixed broadband to serve consumers with speeds of at least 10 Mbps for downloads and 1 Mbps for uploads. That increase reflects marketplace and technological changes that have occurred since the FCC set its previous requirement of 4 Mbps/1 Mbps speeds in 2011.

Increasing the CAF speed requirement means that rural Americans, like urban Americans, can tap the benefits provided by broadband through faster web downloads, improved video streaming, and service capable of supporting multiple users in a household.

Taking a major step to close the rural broadband gap, the FCC authorized 10 telecommunications carriers to receive nearly $9 billion in CAF support over six years for rural broadband deployment. Together with the carriers' own investments, this will expand broadband to nearly 7.3 million currently unserved rural consumers in 45 states nationwide and one U.S. territory over the next few years.

The FCC also took important steps to modernize its Lifeline program, seeking comment on restructuring the program to better support 21st Century communications while building on existing reforms to continue strengthening protections against waste, fraud and abuse. Lifeline was established in 1985 to help make phone service affordable for low-income Americans. In 2008, the Commission expanded the program to allow participation by low-cost wireless providers. In 2012, the Commission made significant reforms, including a database that essentially ended program abuse caused by multiple Lifeline subscriptions in a household. But now, 30 years after Lifeline was founded, the Commission has concluded it is time for a fundamental, comprehensive restructuring of the program to meet today's most pressing communications need: access to broadband. Broadband has become essential to participation in modern society, offering access to jobs, education, health care, government services and opportunity. Unfortunately, income remains a significant barrier to broadband adoption. Lifeline helps makes communications services more affordable for low-income consumers by providing a $9.25 a month subsidy. The item adopted by the FCC proposes and seeks comment on maintaining the same $9.25 subsidy, and seeks to use that money as efficiently and effectively as possible to deliver modern communications services.

The Commission adopted the *Second E-rate Modernization Order* in December of 2014 building on actions taken by the Commission in July of 2014 to modernize and streamline the schools and libraries universal service support program, known as the E-rate program. The actions taken in the *Second E-rate Modernization Order* were the critical next step toward meeting the program goals and broadband connectivity targets the Commission adopted in its July 2014 *E-rate Modernization Order*. The *Second E-rate Modernization Order* addressed the connectivity gap facing many schools and libraries, particularly in rural areas, by maximizing the options available for purchasing affordable high-speed connectivity. The Order also refined and extended the budget-based approach to making WiFi funding available to all eligible schools and libraries over the next five years. In order to meet the long term connectivity needs for all schools and libraries, the Order also increased the annual E-rate funding cap to $3.9 billion indexed annually to inflation. Additionally, the Order built on the administrative improvements to the program made by the *First E-rate Modernization Order* by directing the administrator of the E-rate program, the Universal Service Administrative Company (USAC), to establish a performance management system to assess the effectiveness of policy changes and program administration.

The Commission took a number of other actions designed to encourage and facilitate the deployment of broadband networks. For example, it adopted a Report and Order that takes critical steps to promote deployment of the wireless infrastructure necessary to provide the public with ubiquitous, advanced wireless broadband services. The Report and Order updates and tailors the manner in which the FCC evaluates the impact of proposed deployments on the environment and historic properties. It also adopts rules to clarify and implement statutory limitations on state and local government authority to review infrastructure siting applications, including a "deemed granted" remedy if a state or local government fails to act on an eligible facilities modification request under Section 6409(a) of the Spectrum Act.

The FCC took steps to ensure that two community broadband providers could expand their broadband service to unserved and underserved areas by preempting state laws in Tennessee and North Carolina that prevented these and similar broadband providers in the two states from meeting local demand for broadband service. A Memorandum Opinion and Order adopted by the Commission finds that provisions of the laws in North Carolina and Tennessee are barriers to broadband deployment, investment and competition, and conflict with the FCC’s mandate to promote these goals. The state laws had effectively prevented cities from expanding broadband service outside their current footprints despite numerous requests from neighboring unserved and underserved communities.

Finally, on July 24, 2015, the Commission granted, with conditions, approval of the transfer of control of licenses and authorizations from DIRECTV to AT&T. The approval allowed AT&T to acquire DIRECTV and merge the two companies into one combined entity. The Commission’s decision was based on a careful, thorough review of the record, which included extensive economic analysis and documentary data from the applicants, as well as comments from interested parties. Based on this review, the Commission determined that granting the application, subject to certain conditions, is in the public interest. As part of the merger, AT&T-DIRECTV will be required to expand its deployment of high-speed, fiber optic broadband Internet access service to 12.5 million customer locations as well as to E-rate eligible schools and libraries. In addition, AT&T-DIRECTV is prohibited from using discriminatory practices to disadvantage online video distribution services and will submit its Internet interconnection agreements for Commission review. And the combined AT&T-DIRECTV will offer broadband services to low-income consumers at discounted rates. Furthermore, in order to address the potential harms posed and to confirm certain benefits offered by the transaction, the Commission subjected the merged entity to conditions. Included among those conditions, the Commission required the appointment of an Independent Compliance Officer, who will have the power and authority to review and evaluate AT&T’s compliance with the merger conditions. AT&T and the FCC's Office of General Counsel have recently reached an agreement as to the selection of the Independent Compliance Officer.

MAXIMIZE BENEFITS OF SPECTRUM

Maximize the availability of spectrum in order to provide diverse and affordable communications services to consumers.

The Commission adopted a Report and Order that modernizes and reforms policies designed to facilitate small business’ ability to participate in spectrum auctions and the wireless marketplace. These policies are commonly known as the Designated Entity Rules. The Report and Order adopted common sense reforms to ensure that eligible small businesses and rural service providers are the true recipients of bidding credits. In addition, the Order provides greater flexibility to smaller companies and rural service providers to build wireless businesses that can spur additional investment and bring greater choice to consumers and businesses across the country.

The FCC adopted bidding procedures for next year’s incentive auction. The incentive auction, scheduled to begin on March 29, 2016, is designed to allow market forces to make available high-quality low-band spectrum for mobile broadband.

The Incentive Auction Task Force updated the information package designed to assist broadcasters in their analysis of the opportunities afforded by the incentive auction. The information package included the high and median opening bid prices in each television market for full power and Class A stations eligible to participate in the incentive auction, calculated using the proposed formula adopted by the Commission in December. The updated package also included additional detail on channel sharing and the UHF-to-VHF bidding options, a description of the bidding hierarchy and the bid selection process, and an overview of how the repacking process will work for stations that do not participate or whose bids are not selected.

The FCC began examining the use of new frequency bands for mobile services as part of the Commission's efforts to help meet the growing demand for spectrum. Based on a recommendation from the FCC's Technological Advisory Council, a Notice of Inquiry was adopted that seeks to broaden the Commission's understanding of technological developments that could unlock millimeter wave spectrum above 24 GHz for next-generation mobile wireless services. There have been significant developments in antenna and processing technologies that may allow the use of higher frequencies than those used today for mobile applications. It was long assumed that higher spectrum frequencies, like those above 24 GHz, could not support mobile services due to technological and practical limitations. New technologies are challenging that assumption and promise to facilitate next generation mobile service, what some call "5G," with the potential to dramatically increase wireless broadband speeds.

The Commission adopted rules for the "Citizens Broadband Radio Service," creating a new spectrum band and taking a major step forward in spectrum policy by authorizing advanced spectrum sharing among commercial and federal operators. As spectrum is a finite resource, this action by the Commission combined spectrum sharing tools and policies to make available 150 megahertz of spectrum for mobile broadband and other commercial uses. Specifically, the Report and Order adopted innovative spectrum sharing techniques to create a new three-tiered commercial radio service spanning 3550 MHz to 3700 MHz. The use of advanced spectrum-sharing technology will allow wireless broadband systems to share spectrum with military radars and other incumbent systems, while protecting important federal missions.

The FCC adopted new rules to address the long-term needs of wireless microphone users by providing for continued access to the 600 MHz band and expanding access to other bands. Wireless microphones play an important role in enabling broadcasters and other video programmers to cover breaking news and live sports events. Wireless microphones also enhance event productions in a variety of settings, including theaters and music venues, conventions, houses of worship, and Internet webcasts. Most wireless microphones today operate on unused spectrum in the frequencies currently allocated for TV broadcasting. Wireless microphones also operate in other bands, both on a licensed and unlicensed basis, depending on the particular band. Following the incentive auction, with the repacking of the television band and the repurposing of current television spectrum for wireless services, there may be fewer frequencies in the television bands available for use by wireless microphone operations. The Report and Order provided a viable path forward for continued operation of wireless microphones for a variety of uses and across various bands.

The Commission adopted a Report and Order that modernizes its Part 15 rules to accommodate growing demand for and encourage innovation in unlicensed use. The new rules will permit unlicensed fixed and personal/portable white space devices and unlicensed wireless microphones to use channels in the 600 MHz and television broadcast bands while continuing to protect television and other licensed services from harmful interference. Unlicensed devices have grown from basic garage door openers and cordless phones to Wi-Fi and Bluetooth technologies to the "Internet of Things." The Commission's Part 15 rules permit unlicensed devices to operate on unused TV channels, the so-called "white space" spectrum. Following the upcoming incentive auction, there may be fewer white space frequencies in the television band for use by such devices. The Report and Order was designed to allow for more robust unlicensed use and to promote spectral efficiency in the 600 MHz band.

PROTECT AND EMPOWER CONSUMERS

Empower consumers by ensuring that they have the tools and information they need to make informed choices in their use of communications services; protect consumers from harm in the communications market.

The FCC adopted a proposal to protect consumers against unwanted robocalls and spam texts. In a package of declaratory rulings, the Commission affirmed consumers' rights to control the calls they receive. The Commission also made clear that telephone companies face no legal barriers to offering consumers robocall-blocking tools. The rulings were informed by thousands of consumer complaints about robocalls the FCC receives each month. These rulings addressed almost two dozen petitions and other requests that sought clarity on how the Commission interprets the Telephone Consumer Protection Act (TCPA), thereby closing loopholes and strengthening consumer protections already on the books. The TCPA requires prior express consent for non-emergency autodialed, prerecorded, or artificial voice calls to wireless phone numbers, as well as for prerecorded and artificial voice telemarketing calls to residential wireline numbers.

The Commission adopted rules to help ensure that consumers have the information and tools necessary to maintain landline home telephone service during emergencies. The rules require providers of modern home voice services to provide consumers information and the option to buy backup power so they can use their phone service during electric outages. The FCC is taking this action because home voice service is changing. Traditional, copper-based, landline phone service typically works during electric outages because the service provides its own power. In contrast, modern alternatives usually need backup power to keep operating during a power outage. The new rules are therefore designed to ensure that consumers are making informed decisions, and have options to maintain available communications at home during electric outages. Under the new rules, providers of modern home voice services will be required to ensure that a technical solution for eight hours of standby backup power is available for consumers to purchase at the point of sale. Within three years, these providers will also be required to offer an option for 24 hours of standby backup power. The decision to purchase backup power will be up to consumers – they will not be forced to purchase or pay for equipment they do not want. The rules also require these providers to inform both new and current customers about service limitations during electric outages and the steps they can take to address those risks, including how to keep their service operational during a multi-day power outage.

The FCC's Technological Advisory Council released recommendations regarding on-device theft prevention features. To encourage a quick pivot from recommendations to implementation, FCC Chairman Wheeler called on the wireless industry to voluntarily support the recommendations, and in July the wireless industry implemented a voluntary commitment to extensive theft-prevention features such as remote-locking and remote-data-wiping. The industry indicated it would continue its efforts to deter theft of smart phones through its work implementing the recommendations of the Technological Advisory Council working group.

The Commission adopted rules that allow broadcasters to disclose contest rules online as an alternative to broadcasting them over the air. Adopted in 1976, the FCC's Contest Rule requires broadcasters to disclose important contest information fully and accurately, and to conduct contests substantially as announced. This rule change preserves these requirements, but modernizes how broadcast stations can meet their disclosure obligation by announcing their contest terms over the air or by posting that information on an Internet website. The Order also adopted related implementing rules, including the requirement that broadcasters periodically announce over the air the website address where their contest rules can be found.

The Commission confirmed that opt-out notices are required on all fax ads, and such notices must conform to the rules adopted by the Commission in its 2006 Junk Fax Order. Absent a waiver, full compliance is expected and any failure to comply could subject entities to enforcement sanctions, including potential fines and forfeitures, and to private litigation. The FCC's rules require that a "facsimile advertisement that is sent to a recipient that has provided prior express invitation or permission to the sender must include an opt-out notice."

The FCC announced that it joined the Global Privacy Enforcement Network (GPEN), an international group of privacy regulators and enforcers. GPEN seeks to promote and support law enforcement cooperation and collaboration on cross-border privacy enforcement actions. GPEN members include approximately fifty data protection authorities from around the world. The FCC will join the Federal Trade Commission in representing the United States in GPEN proceedings.

The FCC's Enforcement Bureau undertook a number of investigations in fulfilling its mission to enforce the Commission's rules and protect consumers from illegal or unfair practices. Results of these investigations included:

- Four large wireless carriers paying a total of $353 million to settle allegations that the companies billed customers millions of dollars in unauthorized third-party subscriptions and premium text messaging services.
- A Notice of Apparent Liability ("NAL") proposing a $100,000,000 fine for a carrier for misleading its customers about unlimited mobile data plans. The NAL alleges that the company severely slowed down the data speeds for customers with unlimited data plans and that the company failed to adequately notify its customers that they could receive speeds slower than the normal network speeds it advertised.
- A $25 million settlement with a carrier to resolve an investigation into consumer privacy violations at the carrier's call centers in Mexico, Columbia, and the Philippines. The data breaches involved the unauthorized disclosure of almost 280,000 U.S. customers' names, full or partial Social Security numbers, and unauthorized access to protected account-related data, known as customer proprietary network information (CPNI).
- A wireline carrier and its former subsidiary agreed to pay $10.9 million in penalties for overbilling the FCC's Lifeline program. An FCC investigation showed that the companies continued to provide service to landline customers in the program without recertifying the eligibility of the customers within the 35 days required by Lifeline program rules. As a result of these failures, the companies overbilled the Lifeline program when they requested reimbursement for participating in the program. The $10.9 million in penalties resulting from these settlements are in addition to the refund payments that the companies have previously made to fully reimburse the Lifeline program for ineligible customers.
- A carrier agreed to a $5 million settlement to resolve an inquiry into the company's failure to investigate whether rural customers could receive long distance or wireless calls to landline phones in 26 different rural areas across the country. The carrier will pay a fine of $2 million and will implement a compliance plan in which it commits to spend an additional $3 million over the next three years to improve call completion to rural areas across the country.
- Two companies agreed to settlements totaling $1.35 million for using Wi-Fi monitoring systems to block mobile hotspots at conference facilities where the companies wished to charge a fee to exhibitors and visitors to use their Wi-Fi services.

PROMOTE INNOVATION, INVESTMENT, AND AMERICA'S GLOBAL COMPETITIVNESS

Ensure that all lawful content can be provided, and accessed, without artificial barriers; promote innovation in a manner that improves the nation's ability to compete in the global economy, creating a virtuous circle that results in more investment and in turn enables additional innovation.

Ending lingering uncertainty about the future of the Open Internet, the Commission set sustainable rules of the road that will protect free expression and innovation on the Internet and promote investment in the nation's broadband networks. The FCC has long been committed to protecting and promoting an Internet that nurtures freedom of speech and expression, supports innovation and commerce, and incentivizes expansion and investment by America's broadband providers. Broadband networks must be fast, fair and open; principles shared by the overwhelming majority of the nearly four million commenters who participated in the FCC's Open Internet proceeding. Absent action by the FCC, Internet openness is at risk. The Order finds that the nature of broadband Internet access service has not only changed, but that broadband providers have even more incentives to interfere with Internet openness today. To respond to this changed landscape, the Open Internet Order restored the FCC's legal authority to fully address threats to openness on today's networks, including reclassification of broadband Internet access service as a telecommunications service under Title II of the Communications Act. With a firm legal foundation established, the Order sets "bright-line" rules of the road for behavior known to harm the Open Internet, adopts an additional, flexible standard to future-proof Internet openness rules, and protects mobile broadband users with the full array of Open Internet rules. It does so while preserving incentives for investment and innovation by broadband providers by affording them a carefully tailored version of the light-touch regulatory treatment that fostered tremendous growth in the mobile wireless industry.

The Commission moved forward on two actions that modernize the Commission's rules to reflect the current media landscape and better serve consumers. First, the Commission adopted new rules that allow modification of satellite television markets to help ensure that satellite operators carry the broadcast stations of most interest to the community. The Commission also adopted a proposal that initiates the review of the so-called "totality of the circumstances test" for evaluating whether broadcasters, cable television operators and satellite television carriers are negotiating for retransmission consent in good faith. These actions implement two statutory requirements in the Satellite Television Extension and Localism Act Reauthorization (STELAR) Act of 2014 passed by Congress to modernize rules regarding the satellite, cable, and broadcast television markets.

Pursuant to Congress' mandate in STELAR, the FCC also established the Downloadable Security Technical Advisory Committee (DSTAC). The DSTAC's mission is "to identify, report, and recommend performance objectives, technical capabilities, and technical standards of a not unduly burdensome, uniform, and technology- and platform-neutral software-based downloadable security system" to promote the competitive availability of navigation devices (*e.g.*, set-top boxes and MVPD-compatible television sets) in furtherance of Section 629 of the Communications Act. The DSTAC made findings and recommendations in its final report to the Commission on August 28, 2015, meeting the deadline established by STELAR.

PROMOTE COMPETITION

Ensure a competitive market for communications and media services to foster innovation, investment, and job creation and to ensure consumers have meaningful choice in affordable services.

The FCC modernized and streamlined its rules governing the distribution of phone numbers by leveling the playing field for interconnected Voice over Internet Protocol (VoIP) services, which are increasingly popular with consumers. Under the previous regime, interconnected VoIP service providers had to obtain numbers from third-party carriers. The Order also improves FCC oversight of the numbering system to help ensure that calls connect nationwide, and provides more accountability and protections for the numbering system. Giving direct access to numbers to interconnected VoIP service providers will promote competitive choice for consumers, including speeding the transfer of a customer's existing number to or from an interconnected VoIP provider.

Taking the next major step in its review of competition in the marketplace for business data services (also referred to as special access services), the FCC's Wireline Competition Bureau, on behalf of the Commission, began to make industry data available for public review, pursuant to the terms of a protective order safeguarding competitively sensitive information. Business data services are a wholesale data service widely purchased by businesses and institutions that provides dedicated, guaranteed transmission of high volumes of critical data. The FCC has been collecting data with which to analyze the state of competition in the special access market, which has annual revenues of approximately $40 billion.

PUBLIC SAFETY AND HOMELAND SECURITY

Promote the availability of reliable, interoperable, redundant, rapidly restorable critical communications infrastructures that are supportive of all required services.

The Commission proposed rules to preserve reliable 911 service as technology evolves. The proposals address the increasingly complex nature of the nation's 911 infrastructure and respond to a recent trend of large-scale "sunny day" 911 outages (that is, outages not due to storms or disasters but instead caused by software and database errors). Technology transitions, including the move to IP-based networks, can vastly improve 911 calling and help first responders during emergencies.

The FCC also adopted rules to help emergency responders better locate wireless callers to 911. These updates to the Commission's Enhanced 911 (E911) rules respond to Americans' increasing use of wireless phones to call 911, especially from indoors, where traditional 911 location technologies often do not work effectively or at all. The new rules take advantage of technological developments that will allow for more accurate location information to be transmitted with indoor 911 calls. The new rules establish clear and measureable timelines for wireless providers to meet indoor location accuracy benchmarks. The Commission noted that no single technological approach will solve the challenge of indoor location, and no solution can be implemented overnight. The new requirements therefore enable wireless providers to choose the most effective solutions and allow sufficient time for development of applicable standards, establishment of testing mechanisms, and deployment of new location technology.

The Public Safety and Homeland Security Bureau announced the availability of the FCC's Public Safety Answering Point (PSAP) Text-to-911 Readiness and Certification Registry, listing PSAPs that are ready to receive text-to-911 messages, and providing notice to Commercial Mobile Radio Service providers and other providers of interconnected text messaging services of the notice date of PSAP readiness.

The FCC reached settlements with three carriers totaling nearly $35 million to resolve investigations into 911 service outages. These outages left consumers in numerous states without the capability to reach 911 service for several hours at a time.

Three broadcast companies were fined a total of $2.4 million for misusing the Emergency Alert System (EAS) warning tones during broadcasts. False broadcast of an emergency signal can cause unnecessary public concern and undermine the urgency of real alerts. Broadcast or transmission of emergency tones outside an emergency or authorized test violates FCC regulations designed to protect the integrity of the EAS system.

ADVANCE KEY NATIONAL PURPOSES

Through international and national interagency efforts, advance the use of broadband for key national purposes.

The Commission adopted rules to ensure individuals who are blind or visually impaired can quickly access critical information shown on television in the event of an emergency. In addition, the Commission sought comment on other possible accessibility issues facing those who are blind or visually impaired. These additional steps implement provisions of the Twenty-First Century Communications and Video Accessibility Act of 2010 (CVAA) related to accessible emergency information.

The FCC made permanent its program that distributes communications equipment to low-income individuals who are deaf-blind. Known as “iCanConnect,” the National Deaf-Blind Equipment Distribution Program provides equipment needed to make telecommunications, advanced communications and the Internet accessible to Americans who have significant vision and hearing loss. Through the program, deaf-blind consumers who meet income requirements can receive free communications equipment designed for people with combined vision and hearing loss. Installation, training and other technical support, including individual assessments of each consumer’s specific accessibility needs, are also available.

FCC Chairman Tom Wheeler announced that the agency will offer an open source video access platform that will enable Americans who are deaf, hard of hearing, deaf-blind or who have a speech disability to communicate directly with federal agencies and businesses in American Sign Language (ASL). The platform will provide open source applications for mobile and desktop operating systems which, along with direct video calling, will allow for text and high-quality voice communications. In addition, the FCC will provide applications that relay service users can download on their smartphones or desktops in order to communicate directly with agency representatives.

The FCC formed a Disability Advisory Committee created under the Federal Advisory Committee Act to provide a vehicle for consumers and other stakeholders to provide feedback and recommendations to the Commission on a wide array of disability issues within the FCC’s jurisdiction. The new body will enable the FCC to keep pace with evolving communications accessibility issues and build on its record of ensuring access to communications and video programming for people with disabilities. Some of the issues the Committee will address include telecommunications relay services, closed captioning, video description, access to emergency information on television and telephone emergency services, device accessibility, IP and other network transitions, as well as new disability and accessibility issues that arise.

OPERATIONAL EXCELLENCE

Make the FCC a model for excellence in government by effectively managing the Commission's human, information, and financial resources; by basing decisions on sound data and analyses; and by maintaining a commitment to transparent and responsive processes that encourage public involvement and best serve the public interest.

The Commission adopted a plan to modernize the agency's field operations within the Enforcement Bureau. The proposal, when fully implemented, will improve efficiency, better position the agency to do effective radio interference detection and resolution and meet other enforcement needs, and save millions of dollars annually. The current structure of the FCC's field operations is over 20 years old, during which time significant technological changes have taken place and available funding has decreased. The new field structure was adopted by the Commission after the Enforcement Bureau, Office of the Managing Director, and expert outside consultants conducted a thorough, data-driven analysis of the agency's field operations to maximize the effectiveness of those operations, align them to the overall mission and priorities of the FCC, improve equipment and advanced technologies for field agents, and ensure the most efficient use of the agency's resources. The field reorganization plan aligns the field's structure, operations, expenses, and equipment with the agency's priorities such as radio frequency interference. It also prepares the field to address future enforcement needs in an ever more complex spectrum environment, and aligns field operations to support this mission. Through this plan, the Commission is maintaining a commitment to respond in a timely manner to interference issues anywhere in the nation, including responding to all public safety spectrum complaints within one day.

The FCC launched a new online consumer help center that will more efficiently link consumers to the information they need, as well as make it easier for consumers to file complaints and get responses to their concerns. The consumer help center is part of the FCC's broader efforts to reform its processes to better serve the public. By quickly and efficiently managing consumer complaints, the FCC will help protect consumers and give them a greater voice in its policy initiatives to improve communications services for all. The help center will also streamline the process of synthesizing and analyzing consumer complaint trends, and will make more of that data readily accessible to the public. Better monitoring of these trends will help the FCC, consumers, and industry identify broader problems and shape policy that will promote better service.

The FCC information technology team was recognized for its role in developing the new consumer help desk with the Association for Federal Information Resources Management's (AFFIRM) Leadership Award in Cloud Computing. A first-time AFFIRM Leadership Award recipient, the FCC was the only recipient of a team award from AFFIRM this year. The new system uses a cloud-based Software-as-a-Service model, which embodies the FCC's approach to IT moving forward. In order to develop such a system using the traditional in-house, "on-premise" model, the FCC estimated it would require approximately $3.2 million over one to two years. The new system's price tag of only $450,000 represents a savings of 85 percent to taxpayers. From purchase of the technology to the launch of the platform, the process took approximately six months to complete.

The agency announced the availability of an online filing module for several types of filings that previously could be filed only on paper. In addition, the Commission released two orders directing that certain types of filings may be submitted through the "Submit a Non-Docketed Filing" module of its Electronic Comment Filing System (ECFS).

The FCC undertook large-scale information technology improvements toward the end of FY 2015. These efforts involved the move of more than 200 servers to a commercial service provider and the transfer of over 400 applications associated with those servers. This move will help reduce the costs to maintain the systems, improve their resiliency, and allow us to shift legacy applications to cloud solutions in the long term.

Management Assurances

In accordance with Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, the Commission maintains internal control for financial and management reporting that provides reasonable assurance that the consolidated financial statements fairly present information related to assets, liabilities, and net position and do not contain material misstatements. Transactions are executed in accordance with budgetary and financial laws, consistent with the Commission's statutory requirements, and are recorded in accordance with Federal accounting standards.

Additionally, assets are properly acquired, used, and safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud. Further, the Commission's internal controls provide for the reliability and completeness of its financial and performance data.

The Commission received an unmodified opinion on its financial statements in FY 2013 and FY 2014. In conjunction with both of these opinions, the independent auditors provided the Commission with reports on internal control and compliance with laws and regulations. The independent auditor's report identified no material weakness in internal controls in FY 2013. However, in FY 2014 the FCC's independent auditors, KPMG, did identify one material weakness related to budgetary accounting procedures at the Universal Service Administrative Company (USAC) for the Universal Service Fund (USF). The FY 2014 report also included significant deficiencies in the area of Information Technology Controls. In addition, the report noted an instance of noncompliance with the Debt Collection Improvement Act (DCIA).

During FY 2015, the FCC worked to develop corrective action plans and to remediate the recommendations associated with these findings. First, with regard to addressing the material weakness, the Commission made progress in resolving this weakness but additional work remains at USAC to strengthen internal controls and processes at USAC. In FY 2016 the FCC will continue to work with USAC to ensure that processes and internal controls surrounding the reporting of budgetary accounting activity will prevent, detect and correct significant misstatements in a timely manner.

With regard to addressing the significant deficiencies related to Information Technology controls, the Commission has worked diligently to develop corrective action plans to fully address the auditor's recommendations, and remediate these findings in FY 2015. The Commission will make every effort in FY 2016 to complete and implement corrective actions for each of the recommendations associated with these findings to avoid any repeat findings in this area.

During FY 2015, the FCC continued efforts to correct the one instance of noncompliance with DCIA. The FCC plans to fully comply with DCIA in FY 2016.

During FY 2015, the Commission has continued its efforts to assess and improve internal controls as it works to adhere to the requirements of OMB Circular No. A-123. Most notably, the FCC made improvements to its internal control assessment process as a result of the Government Accountability Office's (GAO) update of its internal control guidance for Federal agencies, *Standards for Internal Control in the Federal Government*, which is commonly known as the Green Book. Specifically, the FCC implemented a new entity level assessment tool and adopted a new program assessment tool for the programs that comprise the largest portions of its budget as well as its operational units. Furthermore, during the current fiscal year, the Commission continued to work with the administrators of its three reporting components, USF, Telecommunications Relay Service, and North American Numbering Plan, to strengthen their internal control frameworks by integrating the updates from GAO's Green Book. The Commission also has a Compliance and Oversight Group under the CFO to make sure all audit recommendations are remediated and to oversee the three reporting components. This Group also is responsible for working with the Bureaus and Offices to obtain their annual assertion letters and their related risk assessments. During the fiscal year the Commission hired an independent audit firm to perform a risk assessment of the USF's Schools and Libraries Program, which was overseen by Financial Operations staff. The Commission's Senior Management Council also continues to meet regularly to strengthen its efforts and efficiencies in overseeing Commission operations. The Commission continues to receive unmodified opinions over its consolidated financial statements; however, the Commission will continue to focus its efforts to make its internal controls over operations more effective and efficient as it moves forward.

Finally, the Commission also completed the task of upgrading its current financial management system, known as Momentum, from release 6.3 to release 7.0. This upgrade enabled the FCC to remain current with baseline software releases, as well as provide the opportunity to enhance the user experience and streamline current business scenarios to support the FCC's continued goal of aligning information technology solutions with the FCC business environment, policy goals, and Federal guidance. The FCC analyzed the impact and the level of effort for the enhancements, identifying those features that provided a major benefit to FCC and enhanced operational efficiency and internal controls.

MANAGEMENT ASSURANCES – FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982 (FMFIA)

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes overall requirements with regard to internal control. FMFIA requires agencies to establish controls that reasonably ensure that: (i) obligations and costs are in compliance with applicable laws; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over assets. Pursuant to FMFIA's requirements, agencies must annually evaluate their system of internal controls and report on the results of those evaluations through management assurance statements.

Status of Internal Controls – Section 2 of FMFIA

During FY 2015, the Commission continued its efforts to improve and strengthen its internal controls over operations and financial reporting. In addition to its own risk assessments over its operations, the Commission worked with USAC and Rolka Loube, LLC (RL) to strengthen their frameworks of internal controls to comply with OMB Circular No. A-123. Throughout FY 2015, the Commission continued to work diligently to close out audit findings from previous audits as well. The Commission was able to close out 51 audit findings in FY 2015. The Commission continues to tighten its controls over operations and improve its policies and procedures where necessary.

While the Commission has continued to maintain its focus on identifying and mitigating risks, there is still work to be done. In FY 2015, the audit report identified one material weakness in internal controls over financial reporting. The material weakness resulted from USAC's budgetary accounting activities for USF. The auditors noted for the High Cost Program that USAC did not prepare a detailed procedure document outlining the process used to calculate the initial obligations and liquidation of those obligations. The auditors also noted for the Schools and Libraries Program that weaknesses exist in the formal lines of communication between the USAC accounting team, the Schools and Libraries program managers, and the third party service provider which resulted in improper accounting transactions.

The accounting errors that the auditors noted above were corrected by USAC and the FCC and do not affect the Commission's FY 2015 financial statements. However, the auditors noted that corrections need to be made to USAC's processes and internal controls to avoid these types of errors from recurring in the future. The Commission will work with USAC to ensure that USAC takes the proper corrective action to resolve these recommendations and strengthen its internal controls.

Financial Management Systems – Section 4 of FMFIA

Section 4 of FMFIA requires agencies to annually evaluate whether the agency's financial management systems conform to government-wide requirements. These financial systems requirements are included in OMB Circular No. A-123. If the agency's systems do not substantially conform to financial systems requirements, agencies must report the non-conformances and discuss the agency's plan to bring the systems into substantial compliance.

In FY 2015, the Commission's financial management systems were in compliance with government-wide requirements. The Commission is continuing to work to improve the performance of its financial management systems through continued improvements of its core financial system. The Commission also continues to work with its reporting components on their financial systems.

Statement of Assurance

The Commission's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of FMFIA. The Commission conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular No. A-123, Management's Responsibility for Internal Control. Based on the results of this evaluation, the Commission can provide a qualified statement of assurance that its internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2015, were operating effectively, with the exception of one material weakness. In addition, the Commission can provide reasonable assurance that its financial management systems meet the objectives of FMFIA.

Tom Wheeler
Chairman
November 13, 2015

Financial Management Systems Strategy

The Commission's financial management system, Genesis, is a Momentum-based product that serves as the financial accounting system of record and provides for the core accounting services to the Commission. These services include: funds control, budget execution, general ledger, accounts payable, accounts receivable, financial system and access controls, and financial system reports. Since its initial implementation in October 2010, Genesis has facilitated compliance with the Federal Managers' Financial Integrity Act (FMFIA), and the maintenance of an unmodified financial audit opinion. The Commission continues to make improvements in the area of financial management system controls, business process engineering and implementation of best practices, including the resolution of financial systems audit findings. The financial management system continues to support the accounting for auctions programs at the FCC, including the Auction of Advanced Wireless Services (AWS-3) Licenses, designated Auction 97, which raised approximately $40 billion in net bids.

The Genesis financial system supports green initiatives and efficiency by reducing the paper chain associated with the document review process and by reducing, and/or eliminating, instances of duplicate data entry into multiple disparate systems. Genesis provides a web enabled self-service capacity for the Bureaus and Offices to execute accounting functions, including business analytics for decision making. These modernization initiatives have facilitated a continued reduction in FTEs for contract support. The current FCC financial accounting system, ten-year firm-fixed price contract, expires in September of 2018. The FCC has initiated the planning process for the future procurement of financial management system services.

Financial management system initiatives in progress for FY 2015 include upgrading the Commission's E-Gov Travel Program. The upgraded travel system is an end-to-end travel management service which automates and consolidates the Federal travel process in a secure Web-centric environment, including all aspects of official Federal business travel, travel planning, authorization, reservations, ticketing, fulfillment, expense reimbursement, and travel management reporting. The new E-Gov Travel Service (ETS2) builds upon the existing General Services Administration (GSA) travel program foundation by improving: usability, reliability, accessibility, performance, account management, managerial reporting, and security for the FCC travel user community.

In addition, improvements were implemented during FY 2015 to comply with the new Treasury Account Symbol Adjusted Trial Balance (GTAS) requirements and the Central Accounting Reporting System (CARS). The submission of the GTAS report provides efficiencies and strengthened internal control benefits by producing the GTAS submission file directly from the Genesis financial system rather than producing the file manually through auxiliary systems.

The Commission's financial management system strategy continues to build on processes that improve internal controls; eliminate redundant data entry through increased integration; implement tools that enhance budget formulation and performance; and continuously partner with our Administrators for the three reporting funds (the Universal Service Fund, the Telecommunications Relay Service Fund, and the North American Numbering Plan) as they modernize their financial systems.

Financial Discussion and Analysis

UNDERSTANDING THE FINANCIAL STATEMENTS

The Commission is committed to excellence and accuracy in financial reporting, transparency, and financial management. Preparing the Commission financial statements is part of the goal to improve financial management and provide accurate and reliable financial information that is useful for assessing performance and allocating resources. The Commission's management is responsible for the integrity and objectivity of the information presented in the financial statements. For ten consecutive years, the financial statements have received an unmodified audit opinion from the external auditors.

The principal financial statements have been prepared to report the financial position and results of operations of the Commission. The statements have been prepared from the books and records of the Commission, in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities. The financial statements and notes are presented in accordance with OMB Circular No. A-136, *Financial Reporting Requirements,* dated August 4, 2015.

This section presents a summary analysis of key financial statement core business activities. The principal financial statements include the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources and Consolidated Statement of Custodial Activity. This section also summarizes the financial activity and net position of the Commission. The complete set of principal financial statements is included in section 2 of this report.

A summary of the Commission's major financial activities in FY 2015 and FY 2014 is presented in the table on the next page. This table represents the resources available for use (assets) against the amount owed (liabilities) and the amount that comprises the difference (net position). The net cost represents the gross cost of operating the Commission's lines of business less earned revenue. Budgetary resources represent funds made available to the Commission.

CHANGES IN FINANCIAL POSITION IN FY 2015
Consolidated
(Dollars in Thousands)

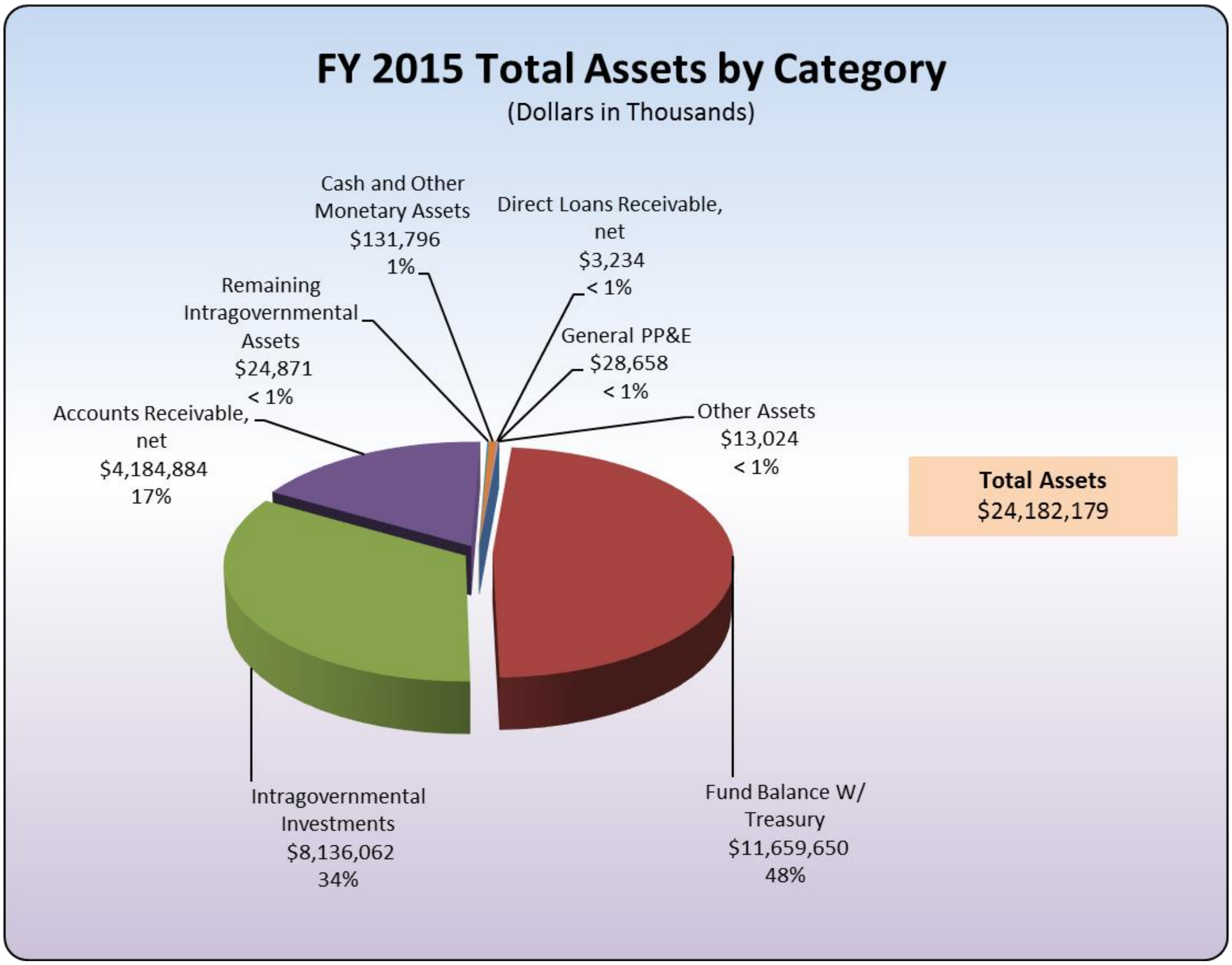
Net Financial Condition		FY 2015		FY 2014		Increase (Decrease)	Percentage Change in Financial Position
Intragovernmental							
Fund Balance with Treasury	$	11,659,650	$	537,984	$	11,121,666	2067%
Investments		8,136,062		7,685,783		450,279	6%
Accounts Receivable		21,152		711		20,441	2875%
Other		3,719		1,063		2,656	250%
Total Intragovernmental	$	19,820,583	$	8,225,541	$	11,595,042	141%
Cash and Other Monetary Assets	$	131,796	$	181,519	$	(49,723)	-27%
Accounts Receivable, net		4,184,884		842,736		3,342,148	397%
Direct Loans Receivable, net		3,234		-		3,234	-
General Property & Equipment, net		28,658		34,443		(5,785)	-17%
Other		13,024		13,024		-	0%
Total Assets	**$**	**24,182,179**	**$**	**9,297,263**	$	14,884,916	160%
Intragovernmental							
Accounts Payable	$	548	$	1,575	$	(1,027)	-65%
Custodial		540,289		325,448		214,841	66%
Other		8,477		4,831		3,646	75%
Total Intragovernmental	$	549,314	$	331,854	$	217,460	66%
Accounts Payable	$	230,818	$	115,845	$	114,973	99%
Deferred Revenue		14,314,772		56,520		14,258,252	25227%
Prepaid Contributions		48,290		47,625		665	1%
Accrued Liabilities for Universal Service		557,796		670,755		(112,959)	-17%
Other		32,142		33,338		(1,196)	-4%
Total Liabilities	**$**	**15,733,132**	**$**	**1,255,937**	$	14,477,195	1153%
Unexpended Appropriations - Other Funds	$	2,868	$	3,059	$	(191)	-6%
Cumulative Results of Operations		8,446,179		8,038,267	$	407,912	5%
Total Net Position	**$**	**8,449,047**	**$**	**8,041,326**	$	407,721	5%
Net Cost of Operations	**$**	**9,170,190**	**$**	**8,824,009**	$	346,181	4%
Total Budgetary Resources	**$**	**14,608,968**	**$**	**14,088,164**	$	520,804	4%

The following is a brief description of the nature of each required financial statement and its relevance, including a description of certain significant balances on Commission operations.

*__Consolidated Balance Sheet__***:** The Consolidated Balance Sheet presents the total amounts available for use by the Commission (total assets) and the amounts owed by the Commission (total liabilities). Investments and Fund Balance with Treasury represent over 81 percent of total assets as of September 30, 2015.

The graph below presents the total assets of the Commission as of September 30, 2015. The large Fund Balance with Treasury balance of $11,660 million, mainly results from $11,100 million collected in the FCC Auction 97 (AWS-3).

The Accounts Receivable balance of $4,185 million is primarily composed of denied bidding credits from FCC Auction 97 (AWS-3) totaling $3,335 million.

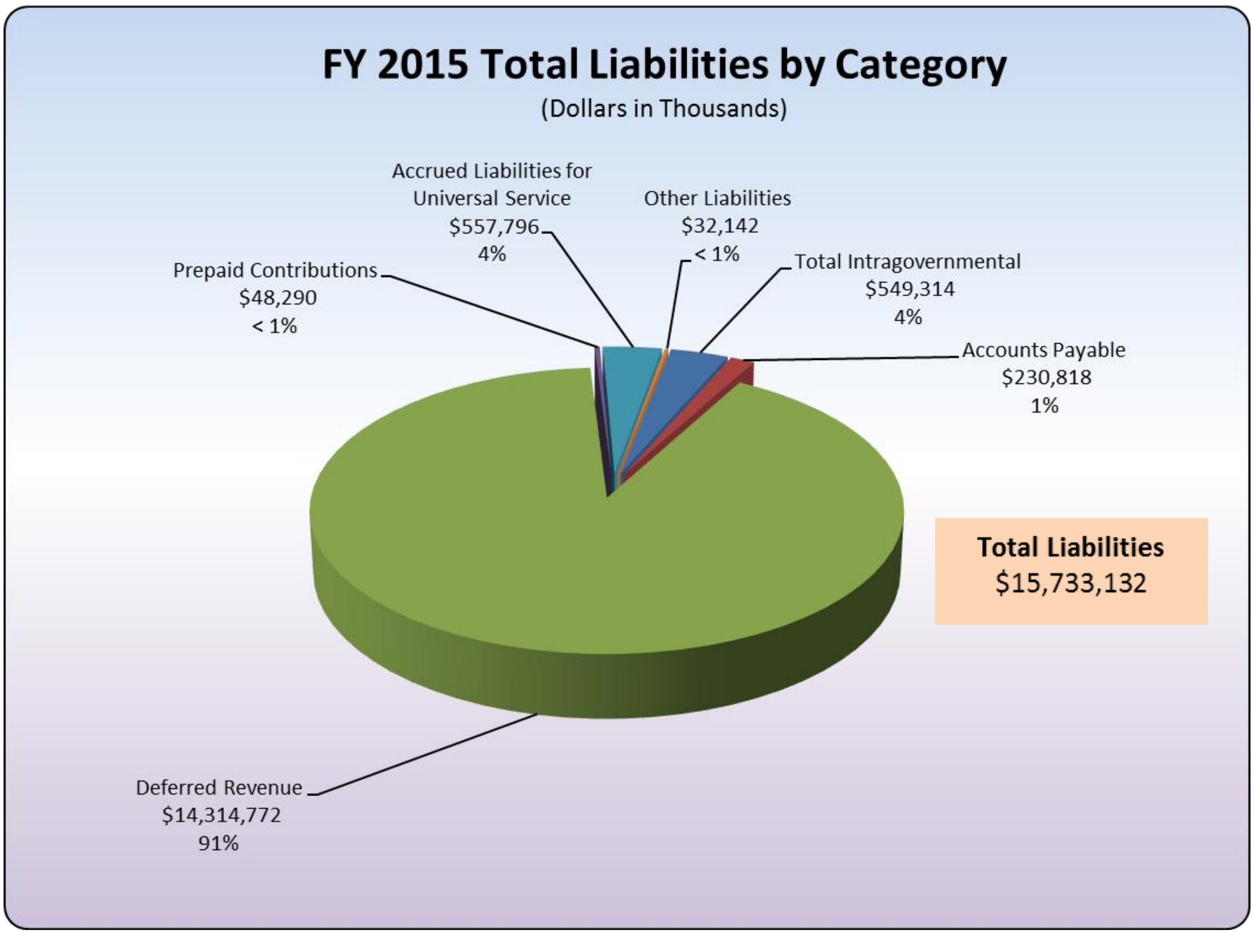


The graph below presents the total liabilities of the Commission as of September 30, 2015. The Commission's most significant liabilities are Deferred Revenue of $14,315 million and Accrued Liabilities for Universal Service of $558 million, which alone accounted for 95 percent of total liabilities as of September 30, 2015.

The large Deferred Revenue balance is mainly due to winning bids of licenses that have not been granted as of September 30, 2015 from FCC Auction 97 (AWS-3).

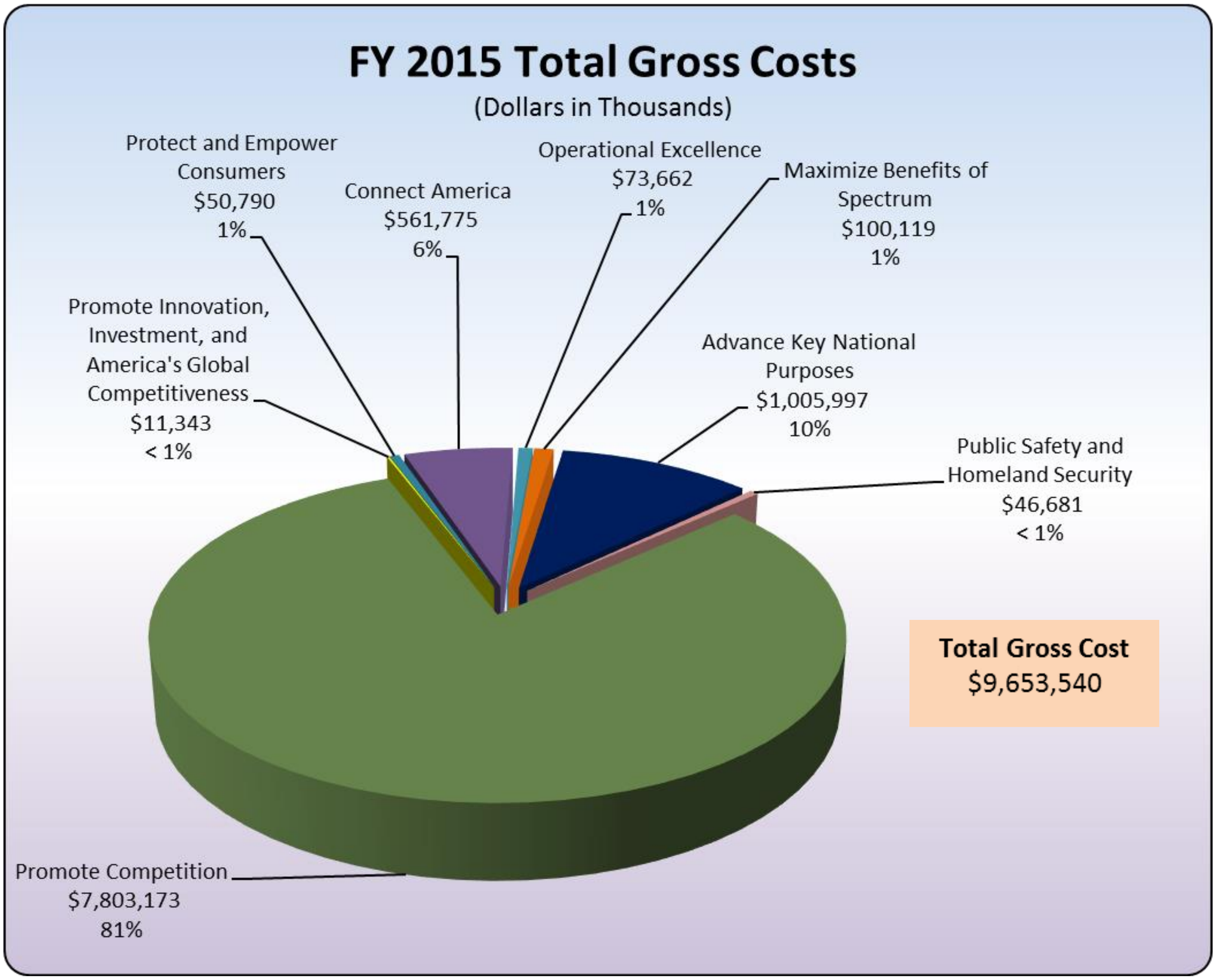
The Accrued Liabilities for Universal Service represent the expected October (FY 2016) payments for the Telecommunications Relay Service Program and the Universal Service Fund High Cost and Lifeline Programs.

Total Intragovernmental is primarily composed of custodial collections earned on Spectrum auctions and miscellaneous receipts.



Consolidated Statement of Net Cost: This statement presents the annual cost of operating Commission programs. The Consolidated Statement of Net Cost is aligned with the eight strategic goals of the Commission: Connect America, Maximize Benefits of Spectrum, Protect and Empower Consumers, Promote Innovation, Investment, and America's Global Competitiveness, Promote Competition, Public Safety and Homeland Security, Advance Key National Purposes, and Operational Excellence. Gross costs for each goal are presented individually while revenue is presented in total rather than by goal. The program costs for the USF are allocated to strategic goals Connect America, Promote Competition, and Advance Key National Purposes and the program costs for the TRS and NANP are allocated to the strategic goal Promote Competition. As a result of the accounting for these activities, the cost for some goals may be significantly higher than the cost of other goals. Contributions received for the USF and TRS programs are shown on the Statement of Changes in Net Position and do not directly offset the costs of these programs on the Statement of Net Cost.

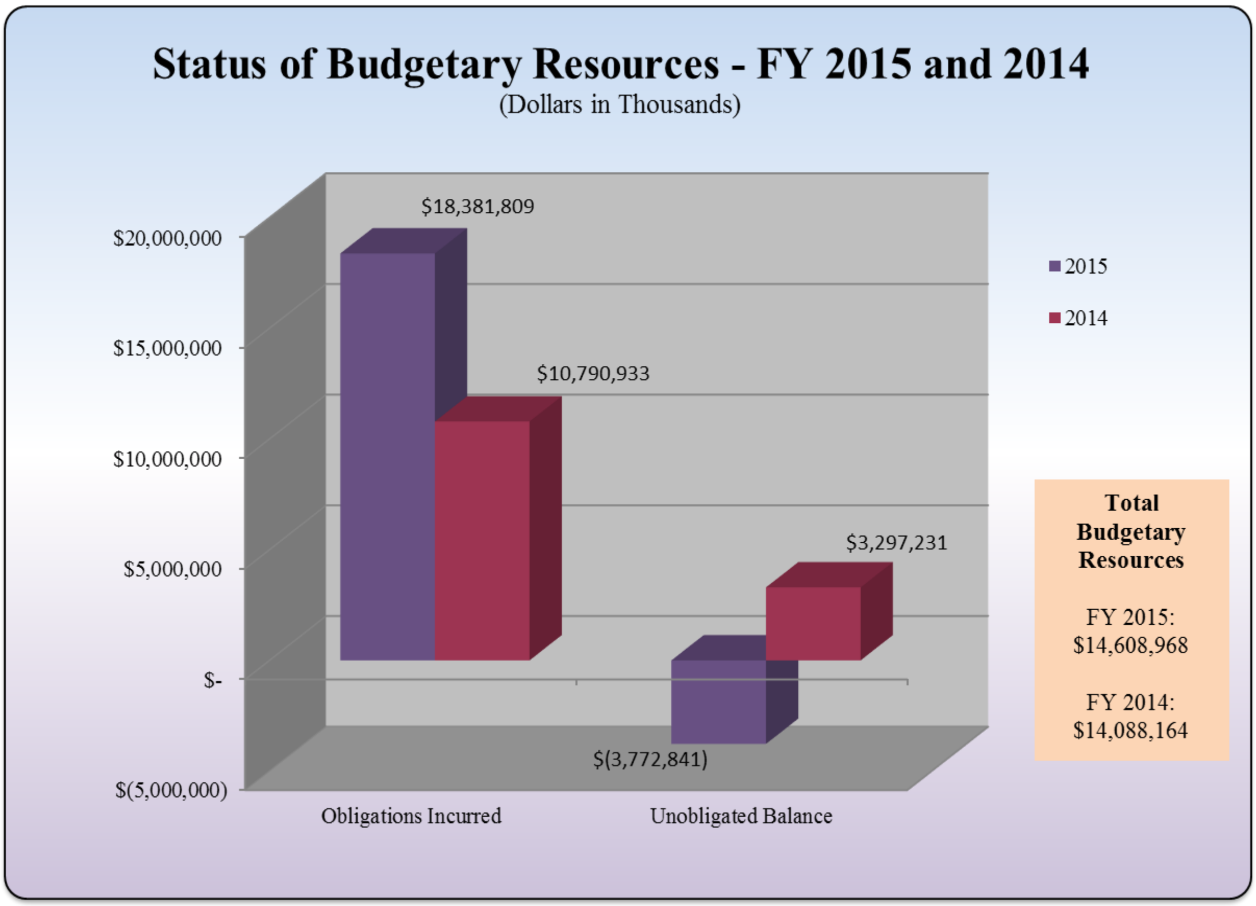
The graph below presents the total gross costs of each Commission program.



Consolidated Statement of Changes in Net Position: This statement presents the cumulative net results of operations and total unexpended appropriations in order to understand the nature of changes to the net position as a whole. In FY 2015, the Commission's Net Position increased $408 million or 5 percent to $8,449 million compared to the net position of $8,041 for FY 2014.

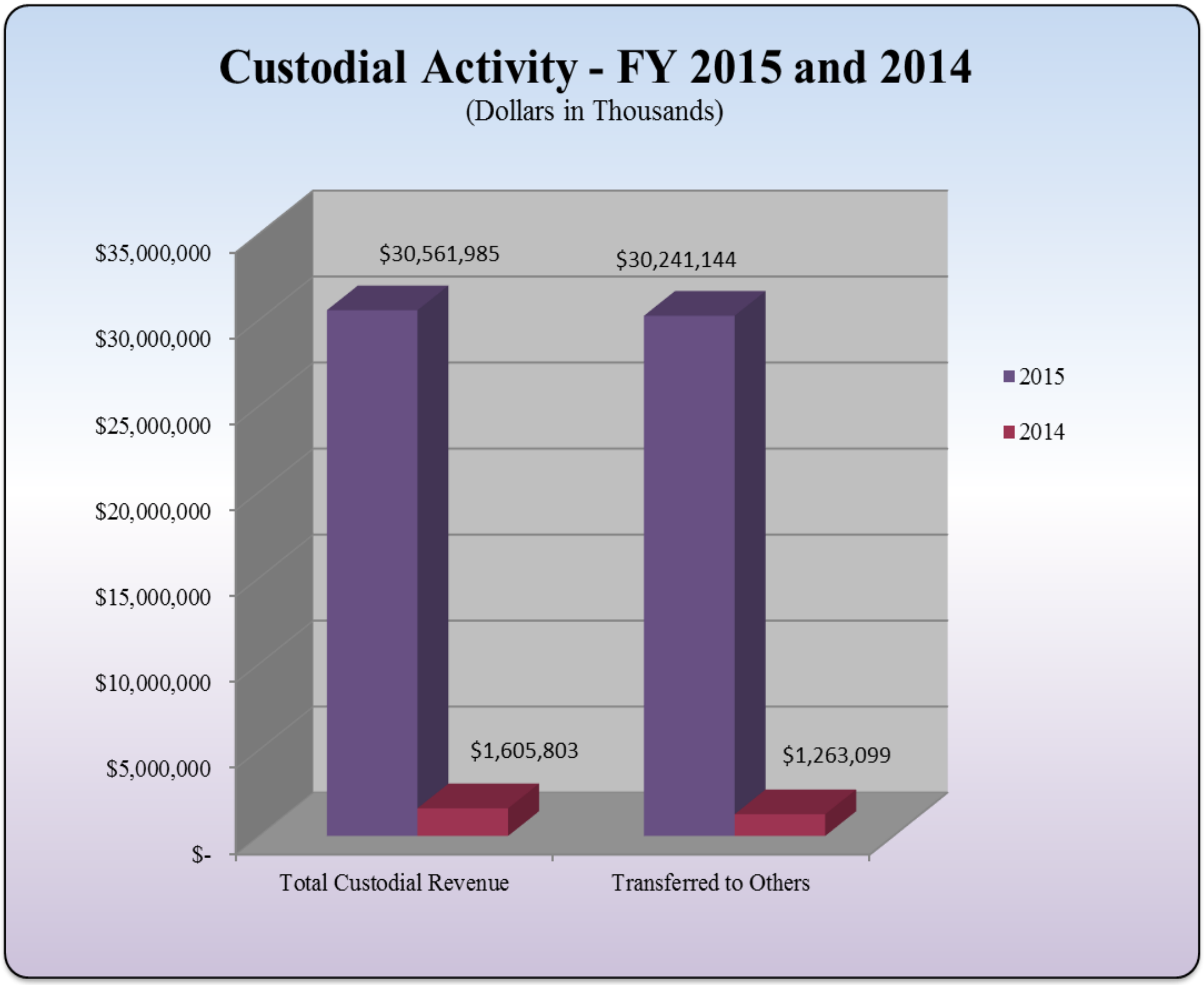
Combined Statement of Budgetary Resources: This statement provides information on how budgetary resources were made available to the Commission for the year and the status of those budgetary resources at the end of the year. The Commission receives most of its budgetary authority from appropriations. Budgetary resources consist of the resources available to the Commission at the beginning of the year, plus appropriations, spending authority from offsetting collections, and other budgetary resources received during the year. The Commission had $14,609 million in budgetary resources of which $18,382 million was for obligations incurred and ($3,773) million remained unobligated. The abnormal balance in the current year is related to the Connect America Fund Phase II (CAF) obligations. However since CAF is a program within the USF it is exempt from the provisions of the Anti-deficiency Act. Congress provided a waiver to USF making it exempt from the provisions of the Anti-deficiency Act until December 31, 2016.

The chart below presents the status of budgetary resources comparatively between FY 2015 and FY 2014.



Consolidated Statement of Custodial Activity: The Commission recognized $30,561,985 million of custodial revenue during FY 2015. From this balance, $18,628 million in auction funds was transferred to the Public Safety Trust Fund that is managed by the National Telecommunications & Information Administration, $11,500 million in auction funds was transferred to the Spectrum Relocation Fund which is managed by Office of Management and Budget, and $113 million in fines and penalties was transferred to the U.S. Treasury. The $215 million increase in amounts yet to be transferred is primarily a result of the FCC holding Auction Custodial Collections for future years at September 30, 2015.

The chart below presents the total amount of custodial revenue and amounts transferred to others comparatively between FY 2015 and FY 2014.



OTHER KEY FINANCIAL STATEMENT HIGHLIGHTS

No-Year Budgetary Authority

For FY 2015 and FY 2014, the Commission is authorized to retain its appropriation as available until expended. Prior to FY 2014, the Commission received annual appropriations.

Regulatory Fee Collections

Section 6003(a) of the *Omnibus Budget Reconciliation Act of 1993*, P.L. 103-66, added a new section 9 to the *Communications Act*. The law requires that the Commission annually collect fees and retain them to offset certain costs incurred by the Commission. The fees collected are intended to recover the non-licensing costs attributable to the Commission's competition, enforcement, consumer information, and spectrum management activities. The amount the Commission is required to recover is included in the Commission's appropriations.

Regulatory fees are collected and warranted back to the Treasury to offset the Commission's appropriations for the current fiscal year. In FY 2015, the Commission was required to collect $340 million in regulatory fees. Actual collections were slightly less than $348 million.

Limitations on the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the Federal Communications Commission, pursuant to the requirements of 31 U.S.C. § 3515(b). While the principal financial statements have been prepared from the books and records of the Commission in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

2. Financial Statements and Auditor's Reports

Message from the Chief Financial Officer

I am pleased to present the Commission's financial statements for fiscal year (FY) 2015 and to report that the Commission's auditors issued an unmodified audit opinion on each of the Commission's financial statements for FY 2015. Furthermore, I am proud to say that this is the tenth straight year the Commission has received an unmodified opinion. The Commission is proud of the work of its staff over the last ten years to obtain and maintain an unmodified opinion.

Throughout FY 2015, the Commission worked diligently on closing audit findings from previous audits. As part of this effort, the Commission made progress on resolving matters raised by its auditors in their FY 2014 audit report.

The Commission is committed to improving its financial processes, demonstrating fiscal integrity, strengthening technology controls, minimizing the risk of improper payments, and reducing improper payments to the customers and beneficiaries of its reporting components. The Commission continues to make improvements to the fiscal management, administration, and oversight of funds reported by the Commission. During FY 2015, the Commission completed the task of upgrading its current financial management system, known as Momentum, from release 6.3 to release 7.0. This upgrade enabled the FCC to remain current with baseline software releases, as well as provide the opportunity to enhance the user experience and streamline current business scenarios to support the FCC's continued goal of aligning information technology solutions with the FCC business environment, policy goals, and Federal guidance. The FCC analyzed the impact and the level of effort for the enhancements, identifying those features that provided a major benefit to FCC and enhanced operational efficiency and internal controls.

The Commission has also continued its efforts to assess and improve internal controls as it works to adhere to the requirements of OMB Circular No. A-123. Most notably, the FCC made improvements to its internal control assessment process as a result of the Government Accountability Office's (GAO) update of its internal control guidance for Federal agencies, *Standards for Internal Control in the Federal Government*, which is commonly known as the Green Book. Specifically, the FCC implemented a new entity level assessment tool and adopted a new program assessment tool for the programs that comprise the largest portions of its budget as well as its operational units. Furthermore, during the current fiscal year, the Commission continued to work with the administrators of its three reporting components, Universal Service Fund (USF), Telecommunications Relay Service, and North American Numbering Plan, to strengthen their internal control frameworks by integrating the updates from GAO's Green Book. The Commission also has a Compliance and Oversight Group under my direction to make sure all audit recommendations are remediated and to oversee the three reporting components. This Group also is responsible for working with the FCC's Bureaus and Offices to obtain their annual assertion letters and their related risk assessments. In addition, during this fiscal year the Commission hired an independent audit firm to perform a risk assessment of the USF's Schools and Libraries Program, which was overseen by my staff. The Commission continues to receive unmodified opinions over its consolidated financial statements; however, the Commission will continue to focus its efforts to make its internal controls over operations more effective and efficient as it moves forward.

While FY 2015 was a year in which the Commission took several positive steps towards strengthening its internal control environment as described above, more work must be done in FY 2016 and beyond. For instance, the FY 2015 audit report points out one material weakness, one significant deficiency, and one instance of non-compliance with laws and regulations. The auditor's primary areas of concern relate to USF budgetary accounting, information technology controls, and non-compliance with the Debt Collection Improvement Act. The FCC concurs with the recommendations made by the independent auditors in their reports and appreciates their diligence, coordination, and communication throughout the audit process.

First, I would like to address the material weakness. In furtherance of a finding that arose in FY 2014, the independent auditor identified a continuing material weakness in the control environment over USF budgetary accounting. The material weakness resulted from the Universal Service Administrative Company's (USAC) budgetary accounting activities for USF. The auditors noted for the High Cost Program that USAC did not prepare a detailed procedure document outlining the process used to calculate the initial obligations and liquidation of those obligations. The auditors also noted for the Schools and Libraries Program that weaknesses exist in the formal lines of communication between the USAC accounting team, the Schools and Libraries program managers, and the third party service provider which resulted in improper accounting transactions.

The accounting errors that the auditors noted above were corrected by USAC and the FCC and do not affect the Commission's FY 2015 financial statements. However, the auditors noted that corrections need to be made to USAC's processes and internal controls to avoid these types of errors from recurring in the future. The FCC will work with USAC to ensure that USAC takes the proper corrective action to resolve these recommendations and strengthen its internal controls.

Second, the Commission is committed to remediating information technology control deficiencies. The Commission's information technology team worked diligently throughout FY 2015 to make improvements and to resolve audit findings from previous year audits. The auditors recognized the FCC has improved its overall information security program and its compliance with the Federal Information Security Management Act (FISMA) and related guidance. As the organization continues to improve, upgrade and replace processes, software and systems, these actions will further strengthen the Commission's information security program.

Finally, the auditors noted one instance of non-compliance related to the Debt Collection Improvement Act. While the Commission has not fully complied with the Debt Collection Improvement Act, the auditor's report pointed out that the extent of debts not transferred to Treasury had decreased from $10.4 million as of September 30, 2014 to $2.6 million as of September 30, 2015. The Commission has a plan in place to complete the transfer of the remaining eligible debt to the Treasury in FY 2016. With these corrective actions already in motion, the FCC hopes that it will be able to have this non-compliance issue closed during the FY 2016 financial audit cycle.

I look forward to FY 2016 and to making every effort to continue to strengthen the Commission's and the reporting components' internal control environments. The Commission will work to conduct the historic incentive auction, to continue to modernize its financial systems to improve the utilization of resources and accuracy of reporting, and to improve the effectiveness of the Commission's and its reporting components' financial operations.

Mark Stephens
Chief Financial Officer
November 13, 2015

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 13, 2015

TO: Chairman

FROM: Inspector General

SUBJECT: Audit of the Federal Communications Commission's Financial Statements for Fiscal Year 2015

As required by the Accountability of Tax Dollars Act of 2002, (Pub. L. 107-289), the Office of Inspector General (OIG) engaged the independent certified public accounting firm of Kearney & Co, P.C. (Kearney) to audit, in accordance with generally accepted government auditing standards, and the fiscal year 2015 financial statements of the Federal Communications Commission (FCC).

Kearney's reports include an opinion on FCC's financial statements, a report on internal control over financial reporting, and a report on compliance and other matters. In summary, Kearney found:

- The financial statements were fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles.
- There was one repeat material weakness, originally reported in FY 2014, in internal control related to USAC's Budgetary Accounting.
- There was one repeat significant deficiency, elements of which have been repeatedly reported since 2005, related to FCC's information technology controls.
- There was one repeat instance of noncompliance with laws and regulations related to requirements of the Debt Collection Improvement Act (DCIA).

The OIG reviewed Kearney's reports and related documentation and made necessary inquires of Kearney's representatives. Kearney is wholly responsible for the attached report dated November 13, 2015 and the conclusions expressed therein. Our review, while still ongoing, disclosed no instances where Kearney did not comply, in all material respects, with generally accepted government auditing standards.

The Office of Inspector General appreciates the cooperation and courtesies to our staff and the staff of Kearney & Co. P.C., during audit.

cc: Managing Director
Chief of Staff
Chief Financial Officer
Chief Information Officer

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INDEPENDENT AUDITOR'S REPORT

To the Chairman, Managing Director, and the Inspector General of the Federal Communications Commission

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Federal Communications Commission (FCC), which comprise the consolidated balance sheet as of September 30, 2015, the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statement of budgetary resources for the year then ended, as well as the related notes to the consolidated financial statements (hereinafter referred to as the "consolidated financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial

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statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the FCC as of September 30, 2015, as well as its net costs, changes in net position, custodial activities, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

FY 2014 Financial Statements Audited by a Predecessor Auditor

The FCC's consolidated financial statements as of and for the year ended September 30, 2014 were audited by a predecessor auditor whose report, dated November 14, 2014, expressed an unmodified opinion on those consolidated financial statements. We were not engaged to audit, review, or apply any procedures on those consolidated financial statements. Accordingly, we do not express an opinion or any other form of assurance on the FY 2014 financial statements as a whole.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information (hereinafter referred to as the "required supplementary information") sections be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by OMB Circular A-136, *Financial Reporting Requirements*, and the Federal Accounting Standards Advisory Board, which consider it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in the *Message from the Chairman* and the *Other Information* sections is presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 15-02, we have also issued reports, dated November 13, 2015, on our consideration of the FCC's internal control over financial reporting and on our tests of the FCC's compliance with provisions of applicable laws and regulations for the year ended September 30, 2015. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02 and should be considered in assessing the results of our audit.

Kearney & Company

Alexandria, Virginia
November 13, 2015

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Chairman, Managing Director, and the Inspector General of the Federal Communications Commission

We have audited the consolidated financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2015, and we have issued our report thereon dated November 13, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the FCC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FCC's internal control. Accordingly, we do not express an opinion on the effectiveness of the FCC's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 15-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*, such as those controls relevant to ensuring efficient operations.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the following sections, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

Material Weakness

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiency in the FCC's internal control to be a material weakness.

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I. Universal Services Fund Budgetary Accounting

As a result of the fiscal year (FY) 2014 financial statement audit, the FCC's predecessor auditor noted a material weakness in internal control relating to the Universal Services Fund's (USF) budgetary accounting. The Universal Service Administrative Company (USAC) administers the support mechanisms, which include the High Cost and Schools and Libraries programs, on behalf of the FCC. During FY 2015, we found that the FCC and USAC continued to lack sufficient reliable controls over its accounting and business processes to ensure USF's budgetary transactions were properly recorded, monitored, and reported. Through the USF High Cost program, USAC provides money to telecommunications companies to defray the cost of providing voice and broadband services to customers in high-cost areas. Through the USF Schools and Libraries program, USAC helps schools and libraries obtain affordable broadband internet. As a result of FY 2015 audit procedures, the FCC recorded material audit adjustments to the USF budgetary accounts related to the High Cost and Schools and Libraries programs. Accordingly, we consider the aggregation of the deficiencies noted to be a material weakness in internal controls surrounding USF budgetary accounting. The individual deficiencies are detailed below.

- High Cost Program Obligations – During FY 2015, the FCC implemented reforms to the High Cost program. As a result of these reforms, the FCC entered into agreements with nine companies to provide them with annual support payments of $1.5 billion for six years to defray the cost of these companies expanding broadband access in underserved areas. As of September 30, 2015, USAC calculated the amount spent during the FY against each of the obligations to determine the amount reported as an unliquidated obligation. USAC calculated the initial obligations and the unliquidated portion manually in a spreadsheet. The FCC reports the amounts calculated as unliquidated obligations by USAC on its consolidated Statement of Budgetary Resources (SBR).

  We obtained the spreadsheets used by USAC to calculate the initial obligations and the unliquidated obligations. We performed analysis to recalculate the amounts reported for all nine companies and assessed the reasonableness of the methodology used for the calculations. We noted that USAC did not include all future payments when calculating the obligation for one program participant. Additionally, we found the method used to calculate unliquidated obligations did not consider all payments made to High Cost program participants, which should decrease unliquidated obligations. Finally, we found that USAC did not reduce the undelivered orders by accrued accounts payable as of September 30th.

  USAC did not prepare a detailed procedure document outlining the process used to calculate the initial obligations and liquidation of the obligations. Without a detailed procedure document, FCC and USAC management could not review and approve the methodology used for the calculations.

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- Schools and Libraries Recoveries of Prior Year Unpaid Obligations – Eligible schools, school districts, and libraries apply to participate in the Schools and Libraries program. Once accepted into the program, USAC issues a Funding Commitment Decision Letter (FCDL). The FCDL communicates acceptance into the program and relevant conditions, including the types of services USAC will reimburse, the maximum amount eligible for reimbursement, and the date by which the invoices must be submitted (referred to as the "invoicing deadline"). When USAC issues an FCDL, accounting personnel record an obligation in USAC's accounting system. As invoices are paid, USAC's accounting personnel reduce the obligated balance. Thirty days after the invoicing deadline, USAC deobligates any unspent funds. FCC reports amounts deobligated in the *Recoveries of Prior Year Unpaid Obligations* line of its consolidated SBR.

  Participants in the Schools and Libraries program can request an extension of the invoicing deadline. When a participant requests an extension prior to the original invoicing deadline, the funds should not be deobligated. When a participant requests an extension after the original invoicing deadline, USAC may still grant the extension, in which case accounting personnel must reobligate the funds.

  We tested 35 FCDLs deobligated and reobligated during FY 2015. We reviewed the supporting documentation provided and noted 17 instances where the accounting office deobligated funds that should have remained as obligations because the participant submitted a timely invoicing deadline extension request.

  During FY 2015, the FCC implemented administrative reforms to the Schools and Libraries program. As a result of these reforms, more participants requested invoicing deadline extensions in FY 2015 than in prior years. This resulted in program office processing delays. USAC accounting personnel were not aware of the processing delays; therefore, accounting personnel did not adjust the accounting entries to ensure deobligations were not recorded when an invoicing deadline extension request had been received, but not processed.

Our audit tests of USF obligations and recoveries identified material errors which required adjustment by FCC and USAC management. Without sufficient controls surrounding budgetary transactions, the FCC and USAC did not prevent, detect, and correct significant misstatements in a timely manner.

Recommendations: Kearney & Company recommends that the FCC and USAC strengthen processes and internal controls surrounding the reporting of budgetary accounting activity. Specifically,

1. Document revised accounting methods and detailed calculations in new or updated procedures when program changes arise that impact accounting procedures and related estimates. USAC and FCC management should review and approve these procedures to ensure they are consistent with accounting standards and practices elsewhere in the FCC and USAC. *[Updated]*

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2. Develop more formal lines of communication between the USAC accounting personnel, the Schools and Libraries program managers, and the third-party service provider regarding administrative changes and issues in order to ensure the proper accounting treatment for the related transactions. *[Updated]*

3. Track when invoicing deadline extension requests are received and ensure that a deobligation is not processed when an invoicing deadline extension request is pending. *[New]*

Significant Deficiency

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance. We consider the following deficiency in the FCC's internal control to be a significant deficiency.

I. Information Technology

FCC uses information systems to compile information for financial reporting purposes, including its core financial management and accounting system, Genesis. Genesis is accessed through the FCC's general information technology (IT) support system. In addition, because the FCC's financial statements include financial transactions relating to the USF programs and the North American Numbering Plan (NANP), the FCC relies upon the general IT support systems and specific applications utilized by the third-party organizations who administer the USF programs and NANP.

We have separately performed an evaluation of the FCC's information security program, as required by the Federal Information Security Modernization Act of 2014 (FISMA), and issued a separate report. In addition to the work performed during our FISMA evaluation, we performed risk-based procedures focused on IT controls that could prevent or detect significant misstatements of, or corruption to, the financial data needed for the FCC's consolidated financial statements. This work was done in accordance with the Government Accountability Office's Federal Information System Controls Audit Manual (FISCAM). Many of the IT control areas of FISMA overlap with those in FISCAM, such as access controls and configuration management. Other IT control areas are unique to FISCAM due to their relevance to financial management and reporting, such as segregation of duties and application controls. We performed risk-based procedures related to segregation of duties and application controls within Genesis. The control deficiencies noted during our FISMA evaluation and our financial statement audit are summarized below:

- FCC IT General Control Environment – We noted that the FCC had improved its overall information security program since the FY 2014 FISMA evaluation, most notably in developing policies and procedures designed to improve the security over its information and implementing major changes in its IT environment, including the relocation of the primary FCC data center, shifting additional processing to the cloud, and replacing legacy

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systems and infrastructure. Despite the progress made during FY 2015, we identified control weaknesses in multiple IT control areas, including Continuous Monitoring Management, Identity and Access Management, Risk Management, Plan of Action and Milestones, and Contractor Systems. These control weaknesses impacted the FCC's general IT support system. FCC management stated that these efforts have required significant resources, delaying the implementation of information security policies and procedures. While these changes provide the FCC with an opportunity to improve its information security posture, management must prioritize and devote sufficient resources to implement its information security policies and procedures and resolve weaknesses in the FCC information security program and systems.

- FCC Financial Management System – The FCC's financial management and accounting system, Genesis, is provided by an external service provider. The external service provider is responsible for maintaining a number of IT controls. However, the FCC's general IT support system is the gateway for all of its systems, including Genesis. Therefore, IT deficiencies noted in the general support system and described above may impact Genesis as well. Further, we noted additional control weaknesses impacting Genesis beyond those inherited from the FCC's general IT support system. We noted that the FY 2015 contingency planning test of Genesis failed. The FCC was unable to provide documentation of whether or not the contingency planning tests were reperformed by the external service provider. In addition, we found that the authorization to operate for Genesis expired in 2014. Our testing did not identify control deficiencies related to segregation of duties or application controls.

- Third-Party Systems and FCC Oversight – The FCC relies upon third parties to provide financial data in an accurate and timely manner. The FISMA evaluation and financial statement audit noted deficiencies in the FCC's oversight of third-party IT systems. Specifically, we found that the FCC lacks policies and procedures for overseeing third-party systems and that its system inventory listings excluded third-party-operated systems and interfaces. Additionally, we performed specific risk-based testing of IT controls at USAC and noted deficiencies relating to the adequacy of system security plans, insufficient training for individuals with significant IT security responsibilities, and account access controls. Control weaknesses in USAC's general IT support system and financial management applications may impact the accuracy and timeliness of data needed for consolidation in the FCC's financial statements.

Similar deficiencies were identified by the FCC's predecessor auditor in the FY 2014 FISMA evaluation and financial statement audit and were reported as a significant deficiency. In general, we found that the FCC had not implemented effective policies, procedures, and processes over its IT general control environment, financial management system, or third-party-operated systems. We consider the aggregation of these control deficiencies to be a significant deficiency.

Poor controls over IT security can affect the integrity of financial applications, which increases the risk that sensitive financial information could be accessed by unauthorized individuals or that

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financial transactions could be altered either accidentally or intentionally. IT weaknesses increase the risk that the FCC will be unable to report financial data in an accurate and timely manner.

Recommendations: Our full FY 2015 FISMA evaluation report includes 33 recommendations intended to improve the effectiveness of the FCC's information security program controls in the areas of Continuous Monitoring Management, Configuration Management, Identity and Access Management, Incident Response and Reporting, Risk Management, Plan of Action and Milestones, Contingency Planning, and Contractor Systems. Twenty-six of the 33 recommendations related to the FCC, while seven of the recommendations related to USAC. Twenty-three of the 26 FCC recommendations and all seven of the USAC recommendations related to FISCAM control areas.

During the audit, we noted certain additional matters involving internal control over financial reporting that we will report to the FCC's management in a separate letter.

FCC's Responses to Findings

The FCC's response to the material weakness and significant deficiency identified in our audit is provided in the memorandum from management, titled Management's Reponses to Independent Auditor's Reports on Internal Control over Financial Reporting and Compliance with Laws and Regulations for Fiscal Year 2015, which is included in Agency Financial Report. The FCC's response was not subjected to auditing procedures applied in the audit of the consolidated financial statements; accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing and not to provide an opinion on the effectiveness of FCC's internal control. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02 in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 13, 2015

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH APPLICABLE PROVISIONS OF LAWS AND REGULATIONS

To the Chairman, Managing Director, and Inspector General of the Federal Communications Commission

We have audited the consolidated financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2015, and have issued our report thereon dated November 13, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FCC's consolidated financial statements are free from material misstatement, we performed tests of its compliance with provisions of applicable laws and regulations, noncompliance with which could have a direct and material impact on the determination of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to the FCC. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion.

The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards* and OMB Bulletin No. 15-02, which is summarized as follows:

- *Debt Collection Improvement Act (DCIA) of 1998, as amended by the Digital Accountability and Transparency Act of 2014.* DCIA, as amended, requires Federal agencies to refer eligible delinquent debt (over 120 days) to the U.S. Department of the Treasury (Treasury) for debt collection action. FCC management informed us on August 12, 2015 that the FCC had not transferred all outstanding eligible debt in accordance with DCIA during fiscal year (FY) 2015. FCC management provided schedules used to track debt and debt transfers. Although the FCC had not fully complied with DCIA, we noted that the extent of debts not transferred to Treasury had decreased from $10.4 million as of September 30, 2014 to $2.6 million as of September 30, 2015.

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Additionally, management communicated a potential instance of non-compliance with the *Antideficiency Act.*[1] Although our audit procedures did not identify any instances of non-compliance in FY 2015, FCC management communicated that there was a potential instance of non-compliance identified in 2011 still being researched by the FCC as of September 30, 2015.

During the audit, we noted certain additional matters involving compliance that we will report to FCC management in a separate letter.

FCC's Response to Findings

FCC management has provided its response to our findings in a separate memorandum, entitled Commission's Response to Independent Auditors' Reports, which is included in the Agency Financial Report. The FCC management's response was not subjected to the auditing procedures applied in our audit of the FCC's consolidated financial statements; accordingly, we do not express an opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing and not to provide an opinion on the effectiveness of FCC's compliance. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 15-02, in considering the FCC's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 13, 2015

[1] The Antideficiency Act prohibits the FCC from making obligations or expending Federal funds in advance or in excess of an appropriation and from accepting voluntary services.

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Office of the Managing Director

M E M O R A N D U M

DATE: November 13, 2015

TO: David L. Hunt, Inspector General

FROM: Jon Wilkins, Managing Director;
Mark Stephens, Chief Financial Officer
David Bray, Chief Information Officer

SUBJECT: Management's Response to Independent Auditor's Reports on Internal Control Over Financial Reporting and Compliance with Applicable Provisions of Laws and Regulations for Fiscal Year 2015

Thank you for the opportunity to review and comment on the draft reports entitled *Independent Auditor's Report on Internal Control Over Financial Reporting* and *Independent Auditor's Report on Compliance with Applicable Provisions of Laws and Regulations*. We appreciate the efforts of your team and the new independent auditor, Kearney and Company, to work with the Federal Communications Commission (Commission or FCC) throughout the fiscal year (FY) 2015 audit process. This year's audit opinion was the result of the commitment and professionalism that both of our offices as well as the independent auditors demonstrated during the FY 2015 audit process. During the entire audit process, the Commission worked closely with your office and the independent auditors' team to provide necessary and timely information to assist the new independent auditors in developing their understanding of the function and operations of the Commission so as to facilitate an efficient audit process.

We are pleased that, for the tenth straight year, the independent auditor provided an unmodified opinion and found that the Commission's consolidated financial statements for FY 2015 present fairly, in all material respects, the financial position of the Commission as of September 30, 2015. Ten straight years of clean audit opinions is an unprecedented accomplishment for the Commission. Throughout this entire period of time, we have worked very hard to continue strengthening the Commission's internal controls and improving its financial management.

Despite these successes, work remains here at the Commission. The FY 2015 audit report points out one material weakness, one significant deficiency, and one instance of non-compliance with laws and regulations. The auditor's primary areas of concern relate to Universal Service Fund (USF) budgetary accounting, information technology controls, and non-compliance with the Debt Collection Improvement Act (DCIA). We concur with the recommendations made by the independent auditors in their reports.

First, we would like to address the material weakness. In furtherance of a finding that arose in FY 2014, the independent auditor identified a continuing material weakness in the control environment over USF budgetary accounting. The material weakness resulted from Universal Service Administrative Company's (USAC) budgetary accounting activities for USF. The auditors noted for the High Cost Program that USAC did not prepare a detailed procedure document outlining the process used to calculate the initial obligations and liquidation of those obligations. The auditors also noted for the Schools and Libraries Program that weaknesses exist in the formal lines of communication between the USAC accounting team, the Schools and Libraries program managers, and the third party service provider which resulted in improper accounting transactions.

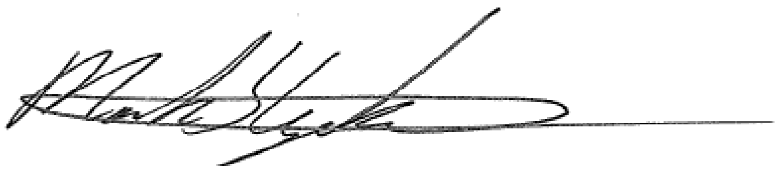
The accounting errors that the auditors noted above were corrected by USAC and the FCC and do not affect the Commission's FY 2015 financial statements. However, the auditors noted that corrections need to be made to USAC's processes and internal controls to avoid these types of errors from recurring in the future. The Commission will work with USAC to ensure that USAC takes the proper corrective action to resolve these recommendations and strengthen its internal controls.

Second, the Commission is committed to remediating information technology control deficiencies. The Commission's information technology team worked diligently throughout FY 2015 to make improvements and to resolve audit findings from previous year audits. The auditors recognized the FCC has improved its overall information security program and its compliance with the Federal Information Security Management Act (FISMA) and related guidance. During FY 2015, the FCC's Chief Information Officer led a team focused on improving the Commission's security posture, which resulted in a 50% reduction in FISMA findings versus the previous fiscal year. Going forward in FY 2016, assuming the necessary funds are available, the Commission will continue to address all weaknesses in its information systems and data stores and expects that upgrades in its systems, along with a strengthened staff, will eliminate a considerable number of the remaining findings. As the organization continues to improve, upgrade and replace processes, software and systems, these actions will further strengthen the Commission's information security program.

Furthermore, the auditors noted one instance of non-compliance related to the Debt Collection Improvement Act. While the Commission has not fully complied with the Debt Collection Improvement Act, the auditor's report pointed out that the extent of debts not transferred to Treasury has decreased from $10.4 million as of September 30, 2014 to $2.6 million as of September 30, 2015. The Commission has a plan in place to complete the transfer of the remaining eligible debt to the Treasury in FY 2016. With these corrective actions already in motion, the FCC hopes that it will be able to have this non-compliance issue closed during the FY 2016 financial audit cycle.

Finally, we are committed to continually strengthening the internal controls of the Commission and its reporting components. This commitment includes developing timely, accurate, and useful performance and financial information to ensure the most effective stewardship of both the funds that the Commission oversees and the funds that the Commission uses to finance its operations. We look forward to working in FY 2016 to resolve the FY 2015 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

Jon Wilkins, Managing Director
Office of Managing Director



Mark Stephens, Chief Financial Officer
Office of Managing Director

Dr. David Bray, Chief Information Officer
Office of Managing Director

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED BALANCE SHEET

As of September 30, 2015 and 2014
(Dollars in thousands)

	FY 2015	FY 2014
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 11,659,650	$ 537,984
Investments (Note 5)	8,136,062	7,685,783
Accounts receivable (Note 6)	21,152	711
Other	3,719	1,063
Total intragovernmental	19,820,583	8,225,541
Cash and other monetary assets (Note 4)	131,796	181,519
Accounts receivable, net (Note 6)	4,184,884	842,736
Direct loans receivable, net	3,234	-
General property, plant, and equipment, net	28,658	34,443
Other	13,024	13,024
Total assets	$ 24,182,179	$ 9,297,263
Liabilities (Note 7):		
Intragovernmental:		
Accounts payable	$ 548	$ 1,575
Other (Note 8)		
Custodial	540,289	325,448
Other	8,477	4,831
Total other	548,766	330,279
Total intragovernmental	549,314	331,854
Accounts payable	230,818	115,845
Other (Note 8)		
Deferred revenue	14,314,772	56,520
Prepaid contributions	48,290	47,625
Accrued liabilities for Universal Service	557,796	670,755
Other	32,142	33,338
Total other	14,953,000	808,238
Total liabilities	$ 15,733,132	$ 1,255,937
Commitments and contingencies (Note 9)		
Net position:		
Unexpended appropriations - All Other Funds	$ 2,868	$ 3,059
Cumulative results of operations - Funds from Dedicated Collections (Note 10)	8,280,330	7,880,477
Cumulative results of operations - All Other Funds	165,849	157,790
Total net position	$ 8,449,047	$ 8,041,326
Total liabilities and net position	$ 24,182,179	$ 9,297,263

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF NET COST
For the Years Ended September 30, 2015 and 2014
(Dollars in thousands)

	FY 2015	FY 2014
Program costs (Note 11)**:**		
Connect America:		
Total Gross Cost	$ 561,775	$ 46,380
Maximize Benefits of Spectrum:		
Total Gross Cost	100,119	110,562
Protect and Empower Consumers:		
Total Gross Cost	50,790	49,259
Promote Innovation, Investment, and America's Global Competitiveness:		
Total Gross Cost	11,343	10,341
Promote Competition:		
Total Gross Cost	7,803,173	8,884,501
Public Safety and Homeland Security:		
Total Gross Cost	46,681	43,101
Advance Key National Purposes:		
Total Gross Cost	1,005,997	78,101
Operational Excellence:		
Total Gross Cost	73,662	74,932
Total Program Costs	$ 9,653,540	$ 9,297,177
Less: earned revenues not attributed to programs	(483,350)	(473,168)
Net cost of operations	$ 9,170,190	$ 8,824,009

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2015 and 2014
(Dollars in thousands)

	FY 2015			FY 2014		
	Funds from Dedicated Collections (Note 10)	**All Other Funds**	**Total**	**Funds from Dedicated Collections** (Note 10)	**All Other Funds**	**Total**
Cumulative Results of Operations:						
Beginning Balances	$ 7,880,477	$ 157,790	$ 8,038,267	$ 6,884,853	$ 161,389	$ 7,046,242
Budgetary Financing Sources:						
Appropriations used	-	191	191	-	661	661
Non-exchange revenue	9,587,271	-	9,587,271	9,821,685	-	9,821,685
Other	51	-	51	1	-	1
Other Financing Sources (Non Exchange):						
Transfers in/out without reimbursement	-	(12)	(12)	-	-	-
Imputed financing	-	13,418	13,418	-	16,195	16,195
Other	-	(22,817)	(22,817)	-	(22,508)	(22,508)
Total Financing Sources	9,587,322	(9,220)	9,578,102	9,821,686	(5,652)	9,816,034
Net Cost of Operations	9,187,469	(17,279)	9,170,190	8,826,062	(2,053)	8,824,009
Net Change	399,853	8,059	407,912	995,624	(3,599)	992,025
Cumulative Results of Operations	8,280,330	165,849	8,446,179	7,880,477	157,790	8,038,267
Unexpended Appropriations:						
Beginning Balances	-	3,059	3,059	-	3,394	3,394
Budgetary Financing Sources:						
Appropriations received	-	-	-	-	351	351
Other adjustments	-	-	-	-	(25)	(25)
Appropriations used	-	(191)	(191)	-	(661)	(661)
Total Budgetary Financing Sources	-	(191)	(191)	-	(335)	(335)
Total Unexpended Appropriations	-	2,868	2,868	-	3,059	3,059
Net Position	$ 8,280,330	$ 168,717	$ 8,449,047	$ 7,880,477	$ 160,849	$ 8,041,326

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2015 and 2014
(Dollars in thousands)

	FY 2015	FY 2014
Budgetary Resources:		
Unobligated balance brought forward, October 1	$ 3,297,231	$ 3,367,269
Recoveries of prior year unpaid obligations	1,237,021	461,521
Other changes in unobligated balance (+ or -)	(1)	(3,618)
Unobligated balance from prior year budget authority, net	4,534,251	3,825,172
Appropriations (discretionary and mandatory)	9,610,451	9,808,739
Borrowing authority (discretionary and mandatory)	-	3,616
Spending authority from offsetting collections (discretionary and mandatory)	464,266	450,637
Total budgetary resources	$ 14,608,968	$ 14,088,164
Status of Budgetary Resources:		
Obligations incurred (Note 13)	$ 18,381,809	$ 10,790,933
Unobligated balance, end of year:		
Apportioned	24,057	22,325
Exempt from apportionment (Note 1 Q.)	(3,927,155)	3,074,850
Unapportioned	130,257	200,056
Total unobligated balance, end of year	(3,772,841)	3,297,231
Total status of budgetary resources	$ 14,608,968	$ 14,088,164
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	$ 4,635,566	$ 4,052,196
Obligations incurred	18,381,809	10,790,933
Outlays (gross) (-)	(9,658,327)	(9,746,042)
Recoveries of prior year unpaid obligations (-)	(1,237,021)	(461,521)
Unpaid obligations, end of year	12,122,027	4,635,566
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(4,270)	(4,418)
Change in uncollected pymts, Fed sources (+ or -)	2,020	148
Uncollected pymts, Fed sources, end of year (-)	(2,250)	(4,270)
Memorandum (non-add) entries		
Obligated balance, start of year (+ or -)	$ 4,631,296	$ 4,047,778
Obligated balance, end of year (net)	$ 12,119,777	$ 4,631,296
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 10,074,717	$ 10,262,992
Actual offsetting collections (discretionary and mandatory) (-)	(473,956)	(459,857)
Change in uncollected payments, Federal sources (discretionary and mandatory) (+ or -)	2,020	148
Budget Authority, net (total) (discretionary and mandatory)	$ 9,602,781	$ 9,803,283
Outlays, gross (discretionary and mandatory)	$ 9,658,327	$ 9,746,042
Actual offsetting collections (discretionary and mandatory) (-)	(473,956)	(459,857)
Outlays, net (total) (discretionary and mandatory)	9,184,371	9,286,185
Distributed offsetting receipts (-)	(75,478)	(67,396)
Agency outlays, net (discretionary and mandatory)	$ 9,108,893	$ 9,218,789

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2015 and 2014
(Dollars in thousands)

	FY 2015	FY 2014
Revenue Activity:		
Sources of Cash Collections:		
Spectrum Auctions	$ 27,094,686	$ 1,568,559
Fines and Penalties	113,352	42,099
Total Cash Collections	27,208,038	1,610,658
Accrual Adjustments (+/-)		
Spectrum Auctions (Note 6)	3,334,631	-
Fines and Penalties	19,316	(4,855)
Total Accrual Adjustments	3,353,947	(4,855)
Total Custodial Revenue (Note 18)	30,561,985	1,605,803
Disposition of Collections:		
Transferred to Others:		
U.S. Treasury	(113,352)	(42,099)
Spectrum Relocation Fund (OMB)	(11,499,988)	-
Public Safety Trust Fund (NTIA)	(18,627,804)	(1,221,000)
(Increase)/Decrease in Amounts Yet to be Transferred (+/-)	(214,841)	(244,004)
Retained by the Reporting Entity	(106,000)	(98,700)
Total Disposition of Collections	(30,561,985)	(1,605,803)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements.

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2015 AND 2014

(Dollars in thousands unless otherwise stated)

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

The Federal Communications Commission (Commission) is an independent United States Government agency, established by the Communications Act of 1934 (Act), as amended. The Commission is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The Commission's jurisdiction spans the 50 states, the District of Columbia, and the U.S. possessions. Five commissioners direct the Commission; they are appointed by the President of the United States and confirmed by the Senate for five-year terms, except when filling an unexpired term or serving in holdover status.

The Commission is comprised of three reporting components. The primary component consists of Commission headquarters and field offices. The two additional components are the Universal Service Fund (USF) and the North American Numbering Plan (NANP). The USF reports the results of the four Universal Service support mechanisms (established pursuant to section 254 of the Act, as amended) and the results of the Telecommunications Relay Service (TRS) Fund (established by the Americans with Disabilities Act of 1990, Title IV). The four universal service support mechanisms are: High Cost, Lifeline, Rural Health Care, and School and Libraries. Section 501 of Division E of the Consolidated and Further Continuing Appropriations Act, 2015, P.L. 113-235, amended Section 302 of the Universal Service Antideficiency Temporary Suspension Act, Title III of P.L. 108-494, to extend the four universal service support mechanisms' exemption from the application of the provisions of the Antideficiency Act until December 31, 2016. Accordingly, these funds are not subject to apportionment by OMB. The TRS Fund is not exempt from the Antideficiency Act and must be apportioned by OMB before funds are available for use. The NANP reports the results of billing and collection activities conducted to support the NANP (47 U.S.C. § 251(e); 47 C.F.R. § 52.16, 52.17, 52.32, and 52.33). NANP is included in the Commission's consolidated Balance Sheet, Statement of Net Cost, and Changes in Net Position since it meets the indicative criteria of Statement of Federal Financial Accounting Concepts (SFFAS) No. 2, Entity and Display. NANP is not subject to budgetary accounting and Congress has not appropriated funds for NANP in an appropriation bill, additionally these funds are not included in the President's Budget.

B. Basis of Accounting and Presentation

The consolidated and combined financial statements (financial statements) have been prepared from the accounting records of the Commission and its components, in conformity with GAAP and the form and content for Federal entity financial statements specified by the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. Custodial activity reported on the Statement of Custodial Activity is prepared on the modified cash basis.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

Note 1 - Summary of Significant Accounting Policies (continued)

C. Fund Balance with Treasury

Funds with the U.S. Department of the Treasury (Treasury) primarily represent general, revolving, and deposit funds. The Commission may use the general and revolving funds to finance expenses, depending on budgetary availability. The deposit accounts are used to hold funds temporarily until they can be properly disbursed or distributed.

D. Cash and Other Monetary Assets

Cash and Other Monetary Assets represent third party deposits and demand deposits at several commercial banks which are maintained by Universal Service Administrative Company (USAC), Rolka Loube, LLC (RL), and Welch LLP, serving as administrators and/or billing and collection agents. Demand deposits bear the names of those entities, as well as the Commission or the fund for which they serve as administrator and/or billing and collection agent. Cash on deposit is collateralized by the Federal Reserve.

E. Investments

Investments are reported at their acquisition cost, adjusted for amortization of premiums or discounts using the Effective Interest Method. All investments are in Treasury securities.

F. Accounts Receivable, Net

Accounts Receivable consists of claims made for payment from the public and other Federal entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts.

The Commission's portion of the allowance for doubtful accounts is determined by applying predetermined percentages against the respective date the receivable was established. An additional analysis of higher dollar value receivables is also performed on individual account balances.

The USF portion of the allowance is determined by calculating an estimated general allowance for doubtful accounts receivable. The general allowance is calculated by multiplying the receivable amounts by the percentage of the estimated uncollectible amount as determined by a review of historical collection rates by type of receivable.

G. Property, Plant and Equipment

The basis for recording purchased general Property, Plant, and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to and from a location suitable for its intended use. The capitalization threshold is $100 for PP&E and $200 for internally developed software with an estimated useful life of two years or more. There is no capitalization of bulk purchases of similar items. PP&E is depreciated on a straight-line basis over the estimated useful lives of the items.

Note 1 - Summary of Significant Accounting Policies (continued)

G. Property, Plant and Equipment (continued)

The following chart summarizes the PP&E classifications with related estimated useful lives:

PP&E Classification	Estimated Useful Lives (years)
Building	40
Non-Computer Equipment	7
Computer & Vehicle Equipment	5
Software	3

Land, including permanent improvements, and software in development are not depreciated. Normal maintenance and repair costs are expensed as incurred.

Leasehold improvement, which includes all cost incurred during the design and construction phase of the improvement, are either amortized over the remaining life of the lease or the useful life of the improvement, whichever is shorter.

H. Other Assets

Other Assets with agencies represent advance payments for intragovernmental agreements. Other Assets with the public represent the balance of transfers less expenses made by the USF to USAC to fund administrative costs in advance. Advances are drawn down as expenses are incurred and a balance typically remains in this account for future expenses.

I. Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities represent a probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities are recognized when they are incurred, regardless of whether they are covered by available budgetary resources. Liabilities cannot be liquidated without legislation that provides resources to do so. As a component of the U.S. Government, a sovereign entity, payments of all liabilities other than contracts can be abrogated by the sovereign entity. Accrued Liabilities for Universal Service mostly represent liabilities recorded by the USF for anticipated subsidies in the High Cost, Lifeline, and TRS programs. The obligations are recognized for subsidies related to certain programs, including: the Mobility Fund, the CAF Phase II, and Rural Broadband Experiment in High Cost. The Commission does not accrue for payments under the Schools & Libraries or Rural Health Care programs until potentially eligible costs pass through a thorough review process and the costs are approved for disbursement.

J. Deferred Revenue

The Commission collects proceeds from the sale of communications spectrum on behalf of the U.S. Government. All proceeds collected up to the amount of the net winning bid are recognized as deferred revenue until a “prepared to grant” or “grant” public notice is issued. In addition, the Commission collects multi-year regulatory fees for five and ten-year periods that are recorded as deferred revenue and amortized over the period of the fee.

Note 1 - Summary of Significant Accounting Policies (continued)

J. Deferred Revenue (continued)

The USF and NANP collect contributions from U.S., Canadian, and Caribbean carriers to cover the costs of the programs. Some carriers have the option of paying monthly or annually. The unearned portion of annual contributions is recognized as deferred revenue.

K. Retirement Plans and Other Benefits

Federal employee benefits consist of the actuarial portion of future benefits earned by Federal employees, including pensions, other retirement benefits, and other post-employment benefits. The Office of Personnel Management (OPM) administers these benefits. The Commission does not recognize any liability on the Balance Sheet for pensions, other retirement benefits, and other post-employment benefits. The Commission recognizes and allocates the imputed costs on the Statement of Net Cost and recognizes imputed financing related to these costs on the Statement of Changes in Net Position.

Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other separations from employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most Commission employees participate in the Civil Service Retirement System (CSRS), the Federal Employee Retirement System (FERS), the FERS-Revised Annuity Employee (FERS-RAE), or the FERS-Further Revised Annuity Employee (FERS-FRAE). Under CSRS, the Commission makes matching contributions equal to seven percent of basic pay. Under all FERS plans, the Commission contributes the employer’s matching share for Social Security. All employees are eligible to contribute to the Thrift Saving Plan (TSP) which is a defined contribution retirement savings and investment plan. For those employees covered by the FERS plans, a TSP account is automatically established to which the commission is required to contribute 1% of gross pay and match dollar-for-dollar on the first 3% of pay contributed each pay period and 50 cents on the dollar for the next 2% of pay contributed. No government contributions are made to the TSP accounts established by CSRS employees. Most employees hired after December 31, 1983, are covered by the FERS plans.

The OPM reports on CSRS, FERS, FERS-RAE, and FERS-FRAE assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to Federal employees.

The actuarial liability for future workers’ compensation benefits payable includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, as well as a component for incurred but not reported claims. The liability is determined using historical benefit payment patterns related to injury years to predict the ultimate payment. The Department of Labor (DOL) determines no actuarial liability for the Commission due to the immateriality.

The unfunded Federal Employees’ Compensation Act (FECA) liability covers compensation and medical benefits for work related injury. The calculation takes the amount of benefit payments over the last nine to twelve quarters and then calculates the annual average of payments. The compensation and medical payments can be found in the chargeback reports that are issued by DOL.

Note 1 - Summary of Significant Accounting Policies (continued)

L. Leave

Annual leave is accrued as earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current leave balances and pay rates. Annual leave is reflected as a liability not covered by current budgetary resources. Sick leave and other types of non-vested leave are expensed as taken.

M. Exchange Revenue and Financing Sources

Regulatory Fee Offsetting Collections (Exchange) – The Omnibus Budget Reconciliation Act of 1993 (Act)
directed the Commission to assess and collect regulatory fees to recover the costs incurred in carrying out certain provisions of its mission. Section 9(a) of the Act, as amended, authorizes the Commission to assess and collect annual regulatory fees to recover the costs, as determined annually by Congress, incurred in carrying out its strategic goals: Connect America; Maximize Benefits of Spectrum; Protect and Empower Consumers; Promote Innovation, Investment, and America's Global Competitiveness; Promote Competition; Public Safety and Homeland Security; Advance Key National Purposes; and Operational Excellence. These fees were established by congressional authority, and consistent with OMB Circular No. A-25 revised, *User Charges*, the Commission did not determine the full costs associated with its regulatory activity in establishing regulatory fees. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected. Fees collected up to the level established by Congress are applied against the Commission's appropriation at the close of each fiscal year. The regulatory fee levels of $339,844 for FY 2015 and FY 2014 were achieved. The Commission collected $7,670 above the required regulatory level in FY 2015 and $8,720 in FY 2014. The cumulative amount collected above the required annual regulatory level is $98,367 at September 30, 2015. In addition, the cumulative amount collected above the required annual regulatory level has been temporarily precluded from obligation since FY 2008.

Competitive Bidding System Offsetting Collections (Exchange) – One of the Commission's primary functions is managing the spectrum auction program. Proceeds from the auctions are initially remitted to the Commission and are later transferred to either the Treasury or the appropriate agency required by Public Law, net of anticipated auction related costs (under 47 U.S.C. § 309, the Commission may retain a portion of the spectrum auction proceeds to offset the cost of performing the auction function). Collections used to offset the cost of performing auctions-related activity were appropriated at $106,000 in FY 2015 and $98,700 in FY 2014.

Radio Spectrum Auction Proceeds (Exchange) – In accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources*, the Commission accounts for this exchange revenue as a custodial activity. Revenue from spectrum auctions is recognized when a "prepared to grant" or "grant" public notice is issued. The value of available spectrum is determined in the market place at the time of auction. The Commission recognized total custodial revenue related to spectrum auctions, net of accrual adjustments, of $30,429,317 in FY 2015 and $1,568,559 in FY 2014. In FY 2015, the Commission transferred recognized custodial revenue of $11,499,988 to the Spectrum Relocation Fund which is administered by the OMB and $18,627,804 to the Public Safety Trust Fund that is managed by the National Telecommunications and Information Administration (NTIA). In FY 2014, the Commission transferred recognized custodial revenue of $1,221,000 to the Public Safety Trust Fund that is managed by the NTIA.

Note 1 – Summary of Significant Accounting Policies (continued)

M. Exchange Revenue and Financing Sources (continued)

Application Fees (Exchange) – Congress authorized the Commission (47 U.S.C. § 8) to collect application processing fees and directed the Commission to prescribe charges for certain types of application processing or authorization services over which the Commission has jurisdiction. Section 8(b) of the Act, as amended, requires the Commission to review and amend its application fees every two years. The amended fees (Schedule of Application Fees 14 U.S.C. § 1.1102 *et seq*.) reflect the net change in the Consumer Price Index for all Urban Consumers calculated over a specific period of time, and the Commission's cost of processing applications and associated filings. Application fees are deposited in the Treasury and are not available for the Commission's use. Application fee revenue totaled $19,474 in FY 2015 and $22,509 in FY 2014.

Reimbursable Work Agreements (Exchange) – The Commission recognizes reimbursable work agreement revenue when earned, i.e., goods that have been delivered or services rendered. The Commission executed agreements totaling $2,711 in FY 2015 and $2,782 in FY 2014.

Allocation of Exchange Revenues
The Commission reports the entire balance of exchange revenue on line "Less: earned revenues not attributed to programs" since there is no direct relationship between earned revenues and specific programs.

USF (Financing Source) – Carriers conducting interstate telecommunications are required to contribute a portion of their revenues to fund the cost of providing universal service. These contributions represent dedicated collections and are accounted for as a budgetary financing source. Total contributions of $9,539,289 and $9,783,416 were received in FY 2015 and FY 2014, respectively.

Appropriations (Financing Source) – The Commission receives a Salaries and Expense appropriation from Congress. These funds are used to pay for operations during the fiscal year and are repaid to the Treasury once regulatory fees are collected. Since FY 2014, Congress authorized the Commission to retain its appropriation as available until expended. The no-year appropriations are $339,844 for FY 2015 and FY 2014. Regulatory fee collections fully fund the no-year appropriations for FY 2015 and FY 2014.

Subsidy Estimates and Reestimates (Financing Source) – The FCRA of 1990, as amended, governs the reporting requirements for direct loan obligations made after FY 1991. As required, the Commission coordinates with OMB in developing estimation guidelines, regulations, and the criteria used in calculating the subsidy estimates and reestimates. The last active loan matured in April 2007 and the Commission wrote off all remaining loans in FY 2013. As result, there was no material activity related to direct loans in FY 2015 and FY 2014, and the Commission is working with OMB to close-out the Credit Reform Program. The most recent subsidy reestimate was completed in September 30, 2015; OMB waived the need to perform a subsidy reestimate in FY 2014. The FY 2015 reestimate resulted in a downward adjustment, including interest of $109 on the reestimate, of $3,343 reported in FY 2015 financial statements. In FY 2015 there was no appropriation; in FY 2014 the Commission received an appropriation of $351 for the FY 2013 subsidy reestimate, of which $25 was permanently sequestered and the remainder was available until used.

Note 1 – Summary of Significant Accounting Policies (continued)

N. Reprogramming

In FY 2015, the Commission received approvals to reprogram $8,750 of prior year de-obligations to fund information technology investments. In FY 2014, the Commission did not reprogram any funds.

O. Transactions with Related Parties

The Commission has a direct oversight relationship with the administrators and Billing and Collection agents (B&C agents) of funds that are components under the overall Commission entity. These organizations are USAC, which is both the administrator and B&C agent for the four USF support mechanisms; RL, which is both the administrator and B&C agent for TRS; Neustar which is the administrator for NANP; and Welch LLP which is the B&C agent for NANP.

The Commission approves the administrative costs paid to these entities from the respective funds that they manage. The administrative costs cover expenses such as the salaries and benefits for the employees dedicated to managing the funds; rent and utilities for office space used; accounting and other financial reporting related services; and other management activities. All related party balances for the fiscal years ended September 30, 2015 and 2014 are listed below:

Administrative Fees:

	USF	TRS	NANP	Total
FY 2015	$ 130,339	$ 4,221	$ 5,769	$ 140,329
FY 2014	$ 116,771	$ 1,302	$ 6,205	$ 124,278

P. Net Position

Net Position is the residual difference between assets and liabilities, and is comprised of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations represents the amount of unobligated and unexpended budget authority. Unobligated Balance is the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. Cumulative Results of Operations is the net difference since the inception of the Commission of (1) expenses and losses and (2) financing sources including appropriations used, revenues, and gains.

Q. Connect America Fund Phase II

The Commission took significant steps towards initiating Phase II of the Connect America Fund (CAF). Nine carriers accepted CAF Phase II support in FY 2015. This resulted in new obligations exceeded available budgetary resources. However, the four universal service support mechanisms are exempt by Congress through December 31, 2016, and are not subject to an apportionment by OMB, refer to Note 1 A.

Note 2 - Non-entity Assets

The following summarizes Non-entity Assets as of September 30, 2015 and 2014:

	FY 2015	FY 2014
Intragovernmental:		
Fund Balance with Treasury	$ 11,434,117	$ 322,815
Accounts Receivable	21,069	377
Total Intragovernmental	11,455,186	323,192
Cash and Other Monetary Assets	-	17
Accounts Receivable, Net	3,369,326	14,914
Total Non-entity Assets	14,824,512	338,123
Total Entity Assets	9,357,667	8,959,140
Total Assets	$ 24,182,179	$ 9,297,263

Non-entity Fund Balance with Treasury (FBWT) primarily represents deposits made towards spectrum auction winning bids. These deposits accounted for $11,433,110 in FY 2015 and $321,851 in FY 2014. Receivables considered non-entity are for regulatory fees, application fees, fines and forfeitures, spectrum auction receivables, and International Telecommunications Settlement (ITS) charges.

Note 3 - Fund Balance with Treasury

The following summarizes FBWT as of September 30, 2015 and 2014:

FY 2015	General Funds	Revolving Funds	Deposit Funds	Total
Unobligated Balance				
Available	$ 23,920	$ 137	$ -	$ 24,057
Unavailable	123,660	3,207	-	126,867
Obligated Balance not yet Disbursed	74,609	-	-	74,609
Non-Budgetary FBWT	-	-	11,434,117	11,434,117
Total	$ 222,189	$ 3,344	$ 11,434,117	$ 11,659,650
FY 2014				
Unobligated Balance				
Available	$ 23,116	$ 3,230	$ -	$ 26,346
Unavailable	109,934	-	-	109,934
Obligated Balance not yet Disbursed	78,889	-	-	78,889
Non-Budgetary FBWT	-	-	322,815	322,815
Total	$ 211,939	$ 3,230	$ 322,815	$ 537,984

Note 3 - Fund Balance with Treasury (continued)

General Funds – Includes the salaries and expense appropriation used to fund agency operations, the auction and reimbursable accounts, the credit reform program account, and the no-year accounts used to carry over spectrum auction funds, offsetting collections, excess regulatory fees, and the Office of Inspector General USF funds.

Revolving Funds – Includes the credit reform financing account used to record cash flows associated with the Commission's spectrum auction loan program.

Deposit Funds – Includes monies being held for spectrum auctions, ITS, and regulatory fees. Deposit funds are non-budgetary and are not available for use by the Commission unless they are properly identified or reclassified as Commission funds. Otherwise, these funds are returned to the depositor or transferred to the Treasury.

Note 4 – Cash and Other Monetary Assets

The following summarizes Cash and Other Monetary Assets as of September 30, 2015 and 2014:

	FY 2015	FY 2014
Cash and Other Monetary Assets	$ 131,796	$ 181,519

USF and NANP contributions and upfront payments made pursuant to spectrum auction activities are the sources of funds for these balances. Upfront payments, unless refunded, are held until 45 days after the close of a given auction and then transferred to the Commission's Treasury account. Interest earned on USF and NANP contributions is reinvested. Interest earned on upfront payments is transferred to the Treasury's General Fund.

In FY 2015, Cash and Other Monetary Assets included $127,061 in USF contributions and related accrued interest being held for distribution, $4,735 in NANP deposits and related accrued interest, and no upfront spectrum auctions payments.

In FY 2014, Cash and Other Monetary Assets included $177,834 in USF contributions and related accrued interest being held for distribution, $3,668 in NANP deposits and related accrued interest, and $17 in upfront spectrum auctions payments.

Note 5 - Investments

The following summarizes Investments as of September 30, 2015 and 2014:

FY 2015	Purchase Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Other Adjustments	Market Value Disclosures
Intragovernmental Securities:							
Marketable Securities							
Treasury Bills	$ 2,132,089	EI	$ 59	$ -	$ 2,132,148		$ 2,132,338
Treasury Notes	6,036,522	EI	(43,220)	10,612	6,003,914	51	6,010,208
Total	$ 8,168,611		$ (43,161)	$ 10,612	$ 8,136,062	$ 51	$ 8,142,546
FY 2014							
Intragovernmental Securities:							
Marketable Securities							
Treasury Bills	$ 728,577	EI	$ 12	$ -	$ 728,589	$ -	$ 728,586
Treasury Notes	6,974,719	EI	(26,155)	8,630	6,957,194	-	6,951,496
Total	$ 7,703,296		$ (26,143)	$ 8,630	$ 7,685,783	$ -	$ 7,680,082

EI - Effective Interest Method

All Treasury securities, regardless of the maturity date, are reported as investments. The Commission expects to hold all investments to maturity; however in FY 2015, USF sold $300,000 worth of investments before maturity to meet cash requirement for CAF Phase II support. This early redemption resulted in a total gain of $51. All investments are held by USF and are also recognized as part of Funds from Dedicated Collections in Note 10.

The cash receipts collected from the public for the USF are used to purchase federal securities. Treasury securities are an asset to the USF and a liability to the Treasury. Because the USF and the Treasury are both part of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the USF with authority to draw upon the Treasury to make future benefit payments or other expenditures. When the USF requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Note 6 - Accounts Receivable, Net

The following summarizes Accounts Receivable, Net as of September 30, 2015 and 2014:

	Intragovernmental	Public	Total
FY 2015			
Gross Accounts Receivable	$ 21,152	$ 4,748,754	$ 4,769,906
Allowance for Doubtful Accounts	-	(563,870)	(563,870)
Accounts Receivable, Net	$ 21,152	$ 4,184,884	$ 4,206,036
FY 2014			
Gross Accounts Receivable	$ 711	$ 1,445,662	$ 1,446,373
Allowance for Doubtful Accounts	-	(602,926)	(602,926)
Accounts Receivable, Net	$ 711	$ 842,736	$ 843,447

The following summarizes accounts receivable by type as of September 30, 2015 and 2014:

	FY 2015			FY 2014		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 1,094,405	$ (260,406)	$ 833,999	$ 1,219,144	$ (403,950)	$ 815,194
COMAD - Schools and Libraries	227,682	(225,592)	2,090	133,391	(121,119)	12,272
Regulatory Fees	32,078	(24,893)	7,185	35,644	(28,901)	6,743
Spectrum Auction	3,355,959	(21,329)	3,334,630	21,081	(21,081)	-
Civil Monetary Penalties	45,438	(22,303)	23,135	26,247	(19,106)	7,141
Other	14,344	(9,347)	4,997	10,866	(8,769)	2,097
Total	$ 4,769,906	$ (563,870)	$ 4,206,036	$ 1,446,373	$ (602,926)	$ 843,447

The Commitment Adjustment (COMAD) for Schools and Libraries audit receivables are subject to appeal and are not considered final until the appeals period has lapsed or a final determination has been issued. The COMAD audit receivables for Schools and Libraries have a 99% allowance in FY 2015 and 91% allowance in FY 2014.

The Spectrum Auction Accounts Receivable relates primarily to amounts due from two companies, SNR Wireless License Co, LLC (SNR) and Northstar Wireless, LLC (Northstar). SNR and Northstar were the winning bidders for a total of 702 licenses in Auction 97, which concluded in January 2015. Although their gross winning bids totaled $13,327,424, they each claimed to be small business entities who, under the Commission's rules, would be eligible for bidding credits of 25 percent against their gross bid amounts. Accordingly, based on such claim, after the auction concluded they were assessed only their net bid amount plus an initial bid withdrawal payment amount related to certain bids withdrawn by SNR during the auction ($10,003,891). As is standard practice, following the auction and the collection of the net winning bid amount, the Commission reviewed whether the companies were in fact eligible for the claimed credit.

Following a review of their eligibility showings, the Commission concluded that the DISH Network Corporation (DISH) has a controlling interest in and is an affiliate of SNR and Northstar and that DISH's

Note 6 - Accounts Receivable, Net (continued)

Revenues therefore were required to be attributed to SNR and Northstar. Accordingly, SNR and Northstar were found to be ineligible for the small business bidding credits applied in Auction 97. The Commission released an order on August 18, 2015 formally communicating each company's ineligibility for bidding credits and ordering payment for the full cost of licenses won during Auction 97. An accounts receivable was established for the full amount of the denied bidding credit, $3,331,856, plus an additional bid withdrawal payment of $2,774 owed by SNR. See Note 20 on subsequent events for a discussion of significant transactions which occurred after the financial statement date related to this accounts receivable.

Note 7 - Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2015 and 2014:

	FY 2015	FY 2014
Intragovernmental:		
FECA Liability	$ 566	$ 521
Unemployment Liability	11	42
GSA Real Estate Taxes	2,673	2,184
Other:		
Unfunded Leave	19,451	20,427
Accrued Liabilities for Universal Service	557,796	670,755
Total liabilities not covered by budgetary resources	580,497	693,929
Total liabilities covered by budgetary resources	15,152,635	562,008
Total Liabilities	$ 15,733,132	$ 1,255,937

Liabilities not covered by budgetary resources are liabilities incurred that are not covered by realized budgetary resources as of the Balance Sheet date.

Note 8 - Other Liabilities

The following summarizes Other Liabilities as of September 30, 2015 and 2014:

FY 2015	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 540,289	$ 540,289
Other	-	8,477	8,477
Total Intragovernmental	$ -	$ 548,766	$ 548,766
Deferred Revenue	$ 34,768	$ 14,280,004	$ 14,314,772
Prepaid Contributions	-	48,290	48,290
Accrued Liabilities for Universal Service	-	557,796	557,796
Other	-	32,142	32,142
Total Other	$ 34,768	$ 14,918,232	$ 14,953,000

FY 2014	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 325,448	$ 325,448
Other	-	4,831	4,831
Total Intragovernmental	$ -	$ 330,279	$ 330,279
Deferred Revenue	$ 35,763	$ 20,757	$ 56,520
Prepaid Contributions	-	47,625	47,625
Accrued Liabilities for Universal Service	-	670,755	670,755
Other	-	33,338	33,338
Total Other	$ 35,763	$ 772,475	$ 808,238

The Custodial Liability includes both cash collected and receivables being held for transfer to the Treasury's General Fund. The Commission collects the following types of custodial revenue: spectrum auction revenue, fines and forfeitures revenue, penalty revenue on regulatory fees, ITS processing fees, and interest revenue on auction deposits. Deferred revenue represents regulatory fees, spectrum auction revenue, or contributor payments that have been received but not earned by the Commission.

Prepaid Contributions include USF and NANP contribution overpayments that may be refunded or used to offset future payments. Accrued Liabilities for Universal Service mostly represent liabilities recorded by the USF for anticipated subsidies in the High Cost, Lifeline, and TRS programs. The obligation for these subsidies is not recognized until payment files are approved in the subsequent month. Remaining Other Liabilities primarily represent anticipated payments related to payroll and other services, and upfront deposits made by auction bidders as well as funds received that are being held until proper application is determined.

Note 9 - Commitments and Contingencies

The Commission is a party in various administrative proceedings, legal actions, and claims brought by or against the agency. The Commission, USAC, and the Department of Justice are investigating several cases and prosecuting others related to disbursements of USF funds from its support mechanisms which might result in future proceedings or actions. Similarly the Commission, RL, and the Department of Justice are investigating several cases related to the TRS funds. The complexity of these future actions precludes management from estimating the total amount of recovery that may result.

The Commission has examined its obligations related to cancelled authority and believes it has no outstanding commitments requiring future resources other than those as disclosed in Note 7. In addition, there are certain operating leases that may contain provisions regarding contract termination costs upon early contract termination. In the opinion of Commission management, early contract termination will not materially affect the Commission's financial statements.

As of September 30, 2015, any legal liabilities that are probable are disclosed as liabilities on the Balance Sheet. There is one case with a reasonable possibility of an unfavorable outcome, but the amount cannot be currently estimated. We have determined that the resolution of this reportable contingent liability should not have a material effect on the financial statements.

Note 10 – Funds from Dedicated Collections

U.S. telecommunications companies are obligated to make contributions to the USF and the TRS Fund. These contributions are accounted for in the Budget of the U.S. Government as the "Universal Service Fund." The Commission currently recognizes the contributions collected under the USF Program as non-exchange revenue on its Statement of Changes in Net Position, and the related disbursements as program expenses on the Statement of Net Cost.

The following summarizes the significant assets, liabilities, and related costs incurred with managing the USF Program as of September 30, 2015 and 2014:

Balance Sheet	**FY 2015**	**FY 2014**
Assets:		
Investments	$ 8,136,062	$ 7,685,783
Cash and other monetary assets	127,061	177,834
Accounts receivable, net	837,145	828,493
General property, plant, and equipment, net	6,251	4,988
Other assets	13,024	13,024
Total assets	$ 9,119,543	$ 8,710,122
Liabilities:		
Accounts payable	$ 218,845	$ 105,080
Deferred revenue	14,176	6,224
Prepaid contributions	48,258	47,586
Accrued liabilities	557,796	670,755
Other	138	
Total liabilities	$ 839,213	$ 829,645
Cumulative results of operations	$ 8,280,330	$ 7,880,477
Total liabilities and net position	$ 9,119,543	$ 8,710,122
Statement of Net Cost		
Net cost of operations	$ 9,187,469	$ 8,826,062
Statement of Changes in Net Position		
Net position beginning of period	$ 7,880,477	$ 6,884,853
Non-exchange revenue	9,587,271	9,821,685
Other financing sources	51	1
Net cost of operations	9,187,469	8,826,062
Change in net position	399,853	995,624
Net position end of period	$ 8,280,330	$ 7,880,477

Note 11 – Intragovernmental Costs and Exchange Revenue

Intragovernmental costs primarily represent goods and services purchased by the Commission from other Federal agencies.

FY 2015

Program Costs	Intragovernmental	Public	Total
Connect America	$ 11,815	$ 549,960	$ 561,775
Maximize Benefits of Spectrum	25,831	74,288	100,119
Protect and Empower Consumers	13,104	37,686	50,790
Promote Innovation, Investment, and America's Global Competitiveness	2,927	8,416	11,343
Promote Competition	26,694	7,776,479	7,803,173
Public Safety and Homeland Security	12,044	34,637	46,681
Advance Key National Purposes	7,318	998,679	1,005,997
Operational Excellence	19,005	54,657	73,662
Total	$ 118,738	$ 9,534,802	$ 9,653,540
Total Earned Revenue	$ 2,826	$ 480,524	$ 483,350

FY 2014

Program Costs	Intragovernmental	Public	Total
Connect America	$ 10,990	$ 35,390	$ 46,380
Maximize Benefits of Spectrum	28,356	82,206	110,562
Protect and Empower Consumers	12,634	36,625	49,259
Promote Innovation, Investment, and America's Global Competitiveness	2,652	7,689	10,341
Promote Competition	26,819	8,857,682	8,884,501
Public Safety and Homeland Security	11,054	32,047	43,101
Advance Key National Purposes	7,505	70,596	78,101
Operational Excellence	19,218	55,714	74,932
Total	$ 119,228	$ 9,177,949	$ 9,297,177
Total Earned Revenue	$ 2,964	$ 470,204	$ 473,168

Note 12 – Available Borrowing Authority, End of the Period

Pursuant to Public Law 112-96 Sec. 6403 (d) (3), the FCC is authorized to borrow from Treasury up to $1,000,000 to fund payment of relocation costs for Broadcast TV Spectrum Incentive Auction. As of September 30, 2015, no money has been drawn from Treasury.

Note 13 - Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

The following summarizes Apportionment Categories of Obligations Incurred for the years ended September 30, 2015 and 2014:

	FY 2015	FY 2014
Direct:		
Category B	1,378,673	1,370,430
Exempt from Apportionment	17,002,014	9,417,463
Total Direct	18,380,687	10,787,893
Reimbursable:		
Category B	1,122	3,040
Total Obligations Incurred	$ 18,381,809	$ 10,790,933

Category B - Apportioned by Purpose

Note 14 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders totaled $11,895,800 as of September 30, 2015 and $4,518,678 as of September 30, 2014.

Note 15 – Permanent Indefinite Appropriations

The Commission has permanent indefinite appropriations available to fund its universal service programs and subsidy costs incurred under credit reform programs. The Commission also has a permanent indefinite appropriation available to fund the costs of developing and implementing its competitive auction program.

Pursuant to 47 U.S.C §§ 254 and 225 the FCC has a permanent indefinite appropriation to fund its universal service programs, including Telecommunications Relay Service Fund. These programs operate by collecting mandatory contributions from telecommunications carriers providing interstate telecommunications services, and from other providers of interstate telecommunications required to contribute if the public interest so requires. These contributions are accounted for federal budgetary purposes as a special fund known as the Universal Service Fund.

Note 15 – Permanent Indefinite Appropriations (continued)

The permanent indefinite appropriations for credit reform are mainly available to finance any disbursements incurred under the liquidating accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the Budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years. However, they are not stated as specific amounts but are determined by specified variable factors, such as cash needs for liquidating accounts, and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

Pursuant to 47 U.S.C § 309(j)(8)(B), the FCC has a permanent indefinite appropriation to retain from the proceeds of its spectrum auctions such sums as may be necessary for the costs of developing and implementing the competitive auction program. These retained proceeds are offsetting collections that remain available until expended. Notwithstanding 47 U.S.C § 309(j)(8)(B), for FY 2015 Congress limited the amount of the auction proceeds that may be retained and made available for obligation to $106,000.

Note 16 – Legal Arrangements Affecting Use of Unobligated Balances

Pursuant to Public Laws, offsetting collections received in excess of $339,844 in FY 2015 and in FY 2014 are temporarily precluded from obligation. In addition, the cumulative amount collected above the required annual regulatory level has been temporarily precluded from obligation since FY 2008. For more information, refer to Note 1 M.

Note 17 - Explanation of Differences Between the Statement of Budgetary Resources (SBR) and the Budget of the U.S. Government

There were no material differences between the Combined Statement of Budgetary Resources (SBR) for FY 2014 and the amounts presented in the 2016 President's Budget. The FY 2017 *Budget of the United States Government* (President's Budget) with actual numbers for FY 2015 has not been published. Pursuant to 31 USC § 1105, the *Budget of the United States Government* will be released the first Monday in February, and will be available at the following website: http:/www.whitehouse.gov/omb.

Note 18 – Custodial Revenues

In accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue & Other Financing Sources*, the Commission collects non-exchange revenues related to miscellaneous receipts and Fines and Forfeitures to the General Fund. Additionally, there is exchange revenue reported on the Statement of Custodial Activity associated with the Radio Spectrum Auction Proceeds.

Note 19 – Reconciliation of Net Cost of Operations (Proprietary) to Budget (Formerly the Statement of Financing)

As of September 30, 2015 and 2014:

	FY 2015	FY 2014
Budgetary Resources Obligated:		
Obligations incurred	$ 18,381,809	$ 10,790,933
Less: spending authority from offsetting collections and recoveries	1,701,287	921,230
Obligations net of offsetting collections and recoveries	16,680,522	9,869,703
Less: offsetting receipts	75,478	67,396
Net obligations	16,605,044	9,802,307
Other Resources	(9,360)	(6,312)
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Undelivered Orders	(7,377,122)	(600,762)
Resources that fund expenses recognized in prior periods	(960)	-
Budgetary offsetting collections and receipts that do not affect net cost of operations	75,591	67,899
Resources that finance the acquisition of assets	(7,820)	(6,170)
Other	(12,229)	(38,975)
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Increase in annual leave liability	(1,004)	(265)
Upward/Downward reestimates of credit subsidy (+/-)	(3,343)	-
Increase in exchange revenue receivable from the public	(1,000)	5,945
Depreciation and amortization	14,574	20,029
Other (+/-)	(112,181)	(419,687)
Net Cost of Operations	$ 9,170,190	$ 8,824,009

Note 20 – Subsequent Events

As stated in Note 6, on August 18, 2015, the Commission found that SNR and Northstar are not small businesses eligible for a 25 percent bidding credit and ordered them to pay the amount of the bidding credit, $3,331,856, plus an additional payment of $2,774 related to certain bids withdrawn by SNR during the auction. Payment of that amount would satisfy the full amount of SNR and Northstar's gross bid amounts and the SNR withdrawal payment and therefore would have entitled them to receive all of the 702 licenses that they won in Auction 97. Instead, on October 1, 2015, SNR and Northstar elected to pay the full gross bid amount for only 505 of the licenses and selectively defaulted on 197 of 702 licenses won in Auction 97. By selectively defaulting, SNR and Northstar incurred an interim default payment of $515,555. The interim default payment was assessed by the Commission based on 15 percent of the gross winning bid price for the 197 licenses they declined.

SNR and Northstar paid the Commission the gross bid amount of the 505 licenses, the interim default payment, and SNR's bid withdrawal payment by using funds on deposit with the Commission and by making an additional payment of $413,151 On October 27, 2015, the Commission issued an aggregate of 505 licenses to SNR and Northstar.

Note 20 – Subsequent Events (continued)

The 197 licenses on which SNR and Northstar defaulted continue to be held by the Commission and will be re-auctioned by the Commission at a future time. In the event that the subsequent winning bids from the re-auction or other award of any of the 197 licenses declined by SNR and Northstar are greater than or equal to the SNR and Northstar winning bids for such license(s) in Auction 97 (an aggregate amount of $3,437,035), no additional amounts will be owed to the FCC. However, to the extent that the subsequent winning bids on any such licenses are less than SNR's and Northstar's winning bids, then SNR and Northstar will be obligated to pay the difference (the deficiency payments). This October 1, 2015, transaction satisfied the $3,334,630 account receivable outstanding at September 30, 2015 (see Note 6). At the same time, a new Account Receivable was created consisting of the total gross bid amount of the 197 licenses that will be re-auctioned, which amount will be satisfied subsequent to the re-auction of the licenses through receipt of the purchase price paid by winning bidders in the re-auction plus, if applicable, any deficiency payments by SNR and Northstar or, in the event they default on any such deficiency payments, by DISH pursuant to a guarantee issued by DISH on October 1, 2015, as a backstop to SNR's and Northstar's deficiency payment obligations.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

For the Years Ended September 30, 2015 and 2014
(Dollars in thousands)

OMB Circular No. A-136, *Financial Reporting Requirements*, requires additional disclosure of an entity's budgetary information by major budgetary accounts if the information was aggregated for presentation purposes on the Statement of Budgetary Resources. Major budgetary accounts of the Commission include Salaries and Expenses (S&E), Auctions, and USF. S&E represents general salaries and expenses of the Commission. Auctions include salaries and expenses of the spectrum auction program. USF includes Universal Service Fund and Telecommunications Relay Service Funds. Non-major budgetary accounts are aggregated under Other.

Reflected in the following charts are the major budgetary accounts of the Commission that are aggregated and presented in the September 30, 2015 and 2014 Combined Statement of Budgetary Resources.

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

FY 2015	S&E	Auctions	USF	Other	Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 20,999	$ 4,133	$ 3,265,958	$ 6,141	$ 3,297,231
Recoveries of prior year unpaid obligations	7,084	4,780	1,225,153	4	1,237,021
Other changes in unobligated balance (+ or -)	(1)	-	-	-	(1)
Unobligated balance from prior year budget authority, net	28,082	8,913	4,491,111	6,145	4,534,251
Appropriations (discretionary and mandatory)	-	-	9,610,451	-	9,610,451
Spending authority from offsetting collections (discretionary and mandatory)	346,382	106,056	11,715	113	464,266
Total budgetary resources	$ 374,464	$ 114,969	$ 14,113,277	$ 6,258	$ 14,608,968
Status of Budgetary Resources:					
Obligations incurred	$ 353,966	$ 106,118	$ 17,921,579	$ 146	$ 18,381,809
Unobligated balance, end of year:					
Apportioned	12,989	8,191	-	2,877	24,057
Exempt from apportionment	-	-	(3,927,155)	-	(3,927,155)
Unapportioned	7,509	660	118,853	3,235	130,257
Total unobligated balance, end of year	20,498	8,851	(3,808,302)	6,112	(3,772,841)
Total status of budgetary resources	$ 374,464	$ 114,969	$ 14,113,277	$ 6,258	$ 14,608,968
Change in Obligated Balance:					
Unpaid obligations:					
Unpaid obligations, brought forward, Oct 1	$ 44,189	$ 36,055	$ 4,555,194	$ 128	$ 4,635,566
Obligations incurred	353,966	106,118	17,921,579	146	18,381,809
Outlays (gross) (-)	(346,591)	(105,118)	(9,206,451)	(167)	(9,658,327)
Recoveries of prior year unpaid obligations (-)	(7,084)	(4,780)	(1,225,153)	(4)	(1,237,021)
Unpaid obligations, end of year	44,480	32,275	12,045,169	103	12,122,027
Uncollected payments:					
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(4,270)	-	-	-	(4,270)
Change in uncollected pymts, Fed sources (+ or -)	2,020	-	-	-	2,020
Uncollected pymts, Fed sources, end of year (-)	(2,250)	-	-	-	(2,250)
Memorandum (non-add) entries					
Obligated balance, start of year (+ or -)	$ 39,919	$ 36,055	$ 4,555,194	$ 128	$ 4,631,296
Obligated balance, end of year (net)	$ 42,230	$ 32,275	$ 12,045,169	$ 103	$ 12,119,777
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	$ 346,382	$ 106,056	$ 9,622,166	$ 113	$ 10,074,717
Actual offsetting collections (discretionary and mandatory) (-)	(356,073)	(106,055)	(11,715)	(113)	(473,956)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	2,020	-	-	-	2,020
Budget Authority, net (discretionary and mandatory)	$ (7,671)	$ 1	$ 9,610,451	$ -	$ 9,602,781
Outlays, gross (discretionary and mandatory)	$ 346,591	$ 105,118	$ 9,206,451	$ 167	$ 9,658,327
Actual offsetting collections (discretionary and mandatory) (-)	(356,073)	(106,055)	(11,715)	(113)	(473,956)
Outlays, net (discretionary and mandatory)	(9,482)	(937)	9,194,736	54	9,184,371
Distributed offsetting receipts (-)	(21,305)	-	(54,173)	-	(75,478)
Agency outlays, net (discretionary and mandatory)	$ (30,787)	$ (937)	$ 9,140,563	$ 54	$ 9,108,893

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

FY 2014	S&E	Auctions	USF	Other	Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 17,942	$ 737	$ 3,338,493	$ 10,097	$ 3,367,269
Recoveries of prior year unpaid obligations	2,956	4,951	453,600	14	461,521
Other changes in unobligated balance (+ or -)	3,852	(3,852)	-	(3,618)	(3,618)
Unobligated balance from prior year budget authority, net	24,750	1,836	3,792,093	6,493	3,825,172
Appropriations (discretionary and mandatory)	-	-	9,808,413	326	9,808,739
Borrowing authority (discretionary and mandatory)	-	-	-	3,616	3,616
Spending authority from offsetting collections (discretionary and mandatory)	343,237	98,788	8,458	154	450,637
Total budgetary resources	$ 367,987	$ 100,624	$ 13,608,964	$ 10,589	$ 14,088,164
Status of Budgetary Resources:					
Obligations incurred	$ 346,340	$ 97,139	$ 10,343,006	$ 4,448	$ 10,790,933
Unobligated balance, end of year:					
Apportioned	17,784	1,761	-	2,780	22,325
Exempt from apportionment	-	-	3,074,850	-	3,074,850
Unapportioned	3,863	1,724	191,108	3,361	200,056
Total unobligated balance, end of year	21,647	3,485	3,265,958	6,141	3,297,231
Total status of budgetary resources	$ 367,987	$ 100,624	$ 13,608,964	$ 10,589	$ 14,088,164
Change in Obligated Balance:					
Unpaid obligations:					
Unpaid obligations, brought forward, Oct 1	$ 43,377	$ 33,834	$ 3,974,879	$ 106	$ 4,052,196
Obligations incurred	346,340	97,139	10,343,006	4,448	10,790,933
Outlays (gross) (-)	(339,706)	(92,833)	(9,309,091)	(4,412)	(9,746,042)
Recoveries of prior year unpaid obligations (-)	(2,956)	(4,951)	(453,600)	(14)	(461,521)
Unpaid obligations, end of year	47,055	33,189	4,555,194	128	4,635,566
Uncollected payments:					
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(4,418)	-	-	-	(4,418)
Change in uncollected pymts, Fed sources (+ or -)	148	-	-	-	148
Uncollected pymts, Fed sources, end of year (-)	(4,270)	-	-	-	(4,270)
Memorandum (non-add) entries					
Obligated balance, start of year (+ or -)	$ 38,959	$ 33,834	$ 3,974,879	$ 106	$ 4,047,778
Obligated balance, end of year (net)	$ 42,785	$ 33,189	$ 4,555,194	$ 128	$ 4,631,296
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	$ 343,237	$ 98,788	$ 9,816,871	$ 4,096	$ 10,262,992
Actual offsetting collections (discretionary and mandatory) (-)	(352,105)	(98,789)	(8,458)	(505)	(459,857)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	148	-	-	-	148
Budget Authority, net (discretionary and mandatory)	$ (8,720)	$ (1)	$ 9,808,413	$ 3,591	$ 9,803,283
Outlays, gross (discretionary and mandatory)	$ 339,707	$ 92,832	$ 9,309,091	$ 4,412	$ 9,746,042
Actual offsetting collections (discretionary and mandatory) (-)	(352,105)	(98,789)	(8,458)	(505)	(459,857)
Outlays, net (discretionary and mandatory)	(12,398)	(5,957)	9,300,633	3,907	9,286,185
Distributed offsetting receipts (-)	(28,342)	-	(39,054)	-	(67,396)
Agency outlays, net (discretionary and mandatory)	$ (40,740)	$ (5,957)	$ 9,261,579	$ 3,907	$ 9,218,789

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3. Other Information

(Unaudited)

Summary of Financial Statement Audit

Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Universal Service Fund – Budgetary Accounting	1	0	0	0	1
Total Material Weaknesses	1	0	0	0	1

See accompanying auditor's report

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Universal Service Fund – Budgetary Accounting	1	0	0	0	0	1
Total Material Weaknesses	1	0	0	0	0	1

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance	Systems do not conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
System is not fully integrated	0	0	0	0	0	0
Total Non-Conformances	0	0	0	0	0	0

Improper Payments Elimination and Recovery Improvement Act Reporting Details

The Federal Communications Commission (FCC or Commission) incorporated improper payments analysis and testing into processes implemented in Fiscal Year (FY) 2015 in compliance with federal statutes[5] and guidance detailed in the Office of Management and Budget (OMB) Circular A-123 Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* Oct. 20, 2014 (Appendix C). Appendix C defines "significant improper payments" as gross annual improper payments (i.e., the total amount of overpayments and underpayments) in the program exceeding (1) both 1.5% of program outlays and $10 million of all program or activity payments made during the fiscal year reported or (2) $100 million (regardless of the improper payment percentage of total program outlays).

I. RISK ASSESSMENTS

The Commission has eight components with funding disbursements that are under the direction of the Commission and its Administrators. The Commission categorizes the components as listed below as that is how the programs are organized and structured programmatically by statute and Commission rules.

- Universal Service Fund High Cost Program (USF-HC)
- Universal Service Fund Schools and Libraries Program (USF-S&L) or (E-Rate)
- Universal Service Fund Lifeline Program (USF-Lifeline) or (USF-LL)
- Universal Service Fund Rural Health Care Program (USF-RHC)
- Universal Service Fund Administrative Costs (USF-Admin)
- Interstate Telecommunications Relay Services Fund (TRS)
- North American Numbering Plan (NANP)
- FCC Operating Expenses (FCC)

Of the programs listed above, the Commission has previously identified the USF-HC, USF-S&L, USF-LL and the TRS programs as susceptible to significant improper payments. In FY 2015, pursuant to Appendix C, which requires a risk assessment once every three years for the other programs (or periodically if significant changes occur), the Commission conducted a risk assessment of the four programs above that were not previously identified as susceptible to significant improper payments. Based upon this analysis, the Commission determined that the USF-RHC, USF-Admin, NANP, and FCC programs are not susceptible to significant improper payments.

In conducting the analysis, the Commission used the methodology described in Appendix C. Specifically, the Commission reviewed any quantitative data that would indicate a risk of significant improper payments that would exceed both 1.5% of program outlays and $10 million of all program or activity payments made during the fiscal year 2015 or $100 million (regardless of the improper payment percentage of total program outlays). In addition, the Commission analyzed each program's risk, taking into account the following nine factors identified by Appendix C: (1) whether the program or activity reviewed is new to the agency; (2) the complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts; (3) the volume of payments made annually; (4) whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office; (5) recent major changes in program funding, authorities,

[5] Improper Payments Information Act (IPIA) of 2002, Improper Payments Elimination and Recovery Act (IPERA) of 2010, and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012.

practices or procedures; (6) the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; (7) inherent risks of improper payments due to the nature of agency programs or operations; (8) significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the Government Accountability Office audit report findings, or other relevant management findings that might hinder accurate payment certification; and (9) results from prior improper payment work.

II. STATISTICAL SAMPLING PROCESS

Universal Service Fund: In FY 2015, the Commission used a statistical sampling process to obtain a statistically valid estimate of the annual amount of improper payments in USF-HC and USF-LL using an alternative sampling method approved by OMB. The USF-S&L plan did not require an alternative sampling method this year. This process, called the Payment Quality Assurance (PQA) assessment plan, tested disbursements made in calendar year 2014. In accordance with OMB guidance, a brief description of the sampling process follows below.

USF-HC: In FY 2015, the Commission used stratified simple random sampling on a sample of transactions selected from calendar year 2014. Samples from USF-HC disbursements were randomly selected simultaneously from all 12 months to ensure that no study area code – the sampling unit for USF–HC – would be assessed more than once during the year. The program is using an alternative sampling plan, as approved by OMB. Specifically, the PQA plan for USF-HC used in FY 2015 was not designed to extrapolate an improper payment error rate for the program as a whole. Rather, the goal was to estimate an improper payment error rate for the Commission rules that were previously identified as subject to the highest improper payments. Assessments of calendar year 2014 transactions were conducted monthly and included: 1) steps to measure the accuracy of payments; 2) evaluation of carrier eligibility; 3) testing of high-level information obtained from program participants; and 4) testing for line count duplicates and summary schedule variances. The Commission is using an alternative sampling methodology because the USF-HC program has recently undergone significant changes to some components of the program as the Commission transitions from a cost-based calculation of the subsidies to an incentive-based approach for payments. As a result, the Commission is in the process of developing procedures to test the new components and has not developed additional procedures for the components of the program that are being phased out.

The study area codes (SACs) were sorted by the total of their absolute disbursement amounts for all of calendar year 2014, and then the study area codes were divided into three strata, according to disbursement amounts. After the exclusion of a *de minimis* category in which the disbursement amount was less than $1,200, the disbursement strata based on annual disbursements were: less than $1 million; greater than or equal to $1 million but less than $5 million; and $5 million and above. Using stratified simple random sampling, the Commission determined that the total number of disbursements to be tested was 30 per month. The total number of transactions tested during the FY 2015 was 360 ($117.79 million) out of a universe of 1,814 SACs with one transaction per SAC per month, for a total of 21,768 transactions ($3.74 billion).

Improper payments of $65,524 were identified in the sample and then extrapolated to an amount for the full year. The combined ratio estimate was used to estimate the improper payment rate by dividing the extrapolated total improper payments by the corresponding extrapolated total disbursements. Using this methodology, the estimated improper payment rate for USF-HC was 0.075% for FY 2015. The total extrapolated amount of improper payments for fiscal year 2015 was $2.80 million. It was obtained by multiplying the improper payment rate of 0.075% (rounded to 0.08% for Table 1, below) by the actual total disbursements of $3.74 billion.

USF-S&L: In FY 2015, the Commission used a sampling methodology that differed from prior years. As in the previous years 2011 to 2014, assessments were conducted on invoice lines. However, in FY 2015, the invoice lines from calendar year 2014 disbursements were separated into two groups, Priority One (P1) invoices and Priority Two (P2) invoices.

The groups were then stratified by disbursement size, resulting in seven strata according to disbursement amounts and invoice type (i.e., P1 and P2 invoices). For P1 invoices, after the exclusion of a *de minimis* category in which the disbursement amount was less than $35, the disbursement strata were based on four categories: $35 to $999; $1,000 to $9,999; $10,000 to $99,999; and $100,000 and above. For P2 invoices, after the exclusion of a *de minimis* category in which the disbursement amounts were less than $300, the disbursement strata were based on three categories: $300 to $9,999; $10,000 to $99,999; and $100,000 or more. Sample sizes varied by stratum, ranging from 15 to 225. A key difference from last year is that the sample is not stratified by month. In addition, the overall sample size was reduced from 766 to 672 in FY 2015. Further, if school or library districts or consortia distributed equipment purchases across multiple locations, the statistician selected a subsample with probability proportional to either the dollar amount or the number of pieces of equipment received by each location. Using stratified simple random sampling, the total number of invoice lines tested for FY 2015 was 672, representing $40.33 million, from a universe of 484,785 lines representing $2.29 billion disbursed.

Even though the sampling methodology changed from the previous year, the FY 2015 procedures used for the assessments of calendar year 2014 transactions were similar to those in FY 2014: : 1) measuring the accuracy of payments; 2) evaluating program applicants' eligibility; 3) testing high-level information obtained from program participants; 4) reviewing technology plans for certified approval and timing of approval, where applicable; 5) verifying service eligibility; 6) confirming lowest corresponding price; and 7) physically inspecting installation and use of equipment. The PQA plan used in FY 2015 for USF-S&L was designed to extrapolate an improper payment error rate for the program as a whole.

Actual improper payments of $1,816,539 were identified in the sample. Weights were used to extrapolate estimates of total improper payments and total disbursements from the sample to the population, commonly referred to as simple expansion estimators. The improper payment rate, which was derived by dividing the improper payment amounts by the corresponding actual total amount disbursed for USF-S&L was 6.33% for FY 2015. The total estimated extrapolated amount of improper payments for FY 2015 was $144.65 million.

USF-LL: In FY 2015, the Commission used stratified simple random sampling on a sample of transactions selected from calendar year 2014. Samples from USF-LL disbursements were randomly selected simultaneously from all 12 months to ensure that no study area code would be assessed more than once per year. *De minimis* disbursements of $1,200 or less were excluded from the universe for sampling.

The program is using an alternative sampling plan, as approved by OMB. The PQA plan used in FY 2015 for USF-LL was not designed to extrapolate an improper payment error rate for the program as a whole. Rather, the goal was to estimate an improper payment error rate for the Commission rules that were previously identified as subject to the highest improper payments. Assessments of calendar year 2014 transactions included: 1) steps to measure the accuracy of disbursements, including information on the FCC Form 497; 2) evaluation of carrier eligibility; 3) testing of subscriber detail and certifications; and, 4) toll limitation service support calculations. In addition, for FY 2015, procedures were also added to verify that the language contained in certification forms complies with the program rules. The Commission is using an alternative sampling methodology because USF-LL program has recently undergone significant changes to some components of the program. In addition, the Commission is currently considering additional changes in the next few months. The Commission released a notice of proposed rulemaking and order in June 2015, which includes proposals to remove the responsibility of conducting the eligibility determination from the Lifeline providers and seek comment on various ways to shift this responsibility to a trusted third-party. As a result, the Commission is still developing assessment procedures to verify recently revised rules and will adopt additional testing procedures if the rules are revised in the short-term.

The sampling units for USF-LL were divided into three strata according to disbursement amounts. USF-LL monthly disbursement strata were: $1,200 to $179,999; $180,000 to $1,799,999; and $1,800,000 and above. Using stratified simple random sampling, the total number of disbursements to be tested was 26 each month. Of the 312 total samples, 127 cases were assessed to review compliance with the One-Per-Household (OPH) requirement. In some of these cases, subsamples of individuals or households were used to estimate the total amount of improper payments arising from OPH exceptions. The sampling units for the OPH requirements were divided into two strata based on the number of subscribers within the household. The strata were households with two to four subscribers and households with five or more subscribers.

The total number of disbursements tested for FY 2015 was 312 ($75.89 million absolute disbursement amount) from a universe of 1,884 SACs ($1.64 billion). Improper payments of $205,702 were identified in the sample. The combined ratio estimator was used to estimate the improper payment rate by dividing the extrapolated total improper payments by the total extrapolated disbursements. Using the combined ratio estimator methodology, the estimated improper payment rate for USF-LL was 0.447% for FY 2015 (rounded to 0.45% for Table 1, below). The total extrapolated amount of improper payments for FY 2015 is $7.31 million.

<u>Telecommunications Relay Service:</u> The TRS Fund Administrator, Rolka Loube, LLC (RL), hired an independent auditing firm to conduct testing for the TRS Fund utilizing an alternative sampling methodology approved by OMB. The contractor relied on the guidance issued by OMB. The plan used in FY 2015 for TRS was not designed to extrapolate an improper payment error rate for the program as a whole. Rather, the goal was to estimate an improper payment error rate for the Commission rules that were previously identified in these programs as subject to the highest improper payments. The Commission is using an alternative sampling methodology because the TRS program has recently undergone significant changes to some components of the program. In addition, the Commission is establishing a user registration database that will allow it to test for all payments and establish a baseline error rate.

The scope of this review included processes performed by RL to determine whether the minutes presented by TRS service providers meet the criteria for reimbursement based on the Commission’s rules. The error rate is calculated for minutes paid during the program year July 1, 2014 through June 30, 2015. The following identifies the risk areas or attributes (ATT) associated with improper payment to TRS Service Providers:

- ATT 1 – Payments made to TRS Service Providers on the “red light” list.
- ATT 2 – Payments are made to Video Relay Service (VRS), Internet Protocol (IP) Relay, or IP Captioned Telephone Service (CTS) service providers who did not submit a complete Speed of Answer (SOA) report.
- ATT 3 – Payments are made to VRS, IP Relay, or IP CTS service providers for days where the SOA daily performance standards are not met.

- ATT 4 – TRS funds are disbursed without proper authorization from RL to the bank and/or amounts do not reflect the approved rate.
- ATT 5 – Payments are made to VRS, IP Relay, or IP CTS service providers when Call Detail Records (CDRs) do not contain the required information in the required format.
- ATT 6 – Payments are made to VRS, IP Relay, or IP CTS service providers when the CDRs are not in compliance with the applicable FCC rules.
- ATT 7 – Payment to an ineligible TRS Service Provider due to non-submission or improper submission of the Intent to Participate.

The testing approach for attributes 1 through 7 included identifying the unique population and pulling a statistically valid sample from the defined population. Due to the small sample size, the plan called for a 100% test for Attributes 1, 2, 3, 4, and 7. The total amount tested for these Attributes was approximately $900 million.

The remaining two attributes (5 and 6) have large populations resulting in the development of a statistically valid sample. These two attributes were tested together using a single population and one statistical sample for each IP-based service. The amount tested for these Attributes was approximately $880 million. This population is related to reimbursement based upon the individual CDRs submitted for reimbursement for the three IP-based services. The sample was selected randomly using actual values and the formula recommended in the statisticians approved statistical plan.

The sample size for attributes five and six varies based upon the service according to the table listed below.

TRS Service	Actual Total Record Count	Sample Record Count
VRS	130,094,562	518
IP CTS	94,788,094	169
IP Relay	8,660,793	373

Upon complete analysis of the exceptions, only those payments determined to result in an improper payment are included in the calculation of the error rate. It should also be noted that the error rate is the absolute value of all erroneous payments during the program year July 1, 2014 through June 30, 2015 regardless of whether the payments were corrected. The calculated improper payment error rate for the testing period is 0.00%.

III. IMPROPER PAYMENT REPORTING

Table 1 below reports the improper payment rates for USF-HC, USF-LL and TRS using an OMB-approved alternative methodology for each program. USF-S&L established a baseline improper payment rate this fiscal year. As required by OMB and reported in Table 1 below, the Commission provided the current fiscal year outlays (CY Outlays) by each of the programs deemed to be susceptible to significant improper payments. The USF PQA process tests the calendar year, not the fiscal year; accordingly, the USF current year outlays noted below are for calendar year 2014 and the past year outlays are for calendar year 2013. For TRS, the time period tested is the program year, which is July 1, 2014 to June 30, 2015 for the current year, and the past year is July 1, 2013 to June 30, 2014. The future years for USF and TRS are fiscal years, as reported in the President's Budget. The CY and PY amounts are the extrapolated estimated amounts for USF-HC, USF-S&L USF-LL, and TRS.

Table 1
Improper Payment Reduction Outlook
($ in millions)

Program or Activity	PY Outlays	PY IP %	PY IP $	CY Outlays	CY IP %	CY IP $	CY Over-payment $	CY Under-payment $	CY + 1 Est. Outlays	CY + 1 Est. IP %	CY + 1 Est. IP $	CY + 2 Est. Outlays	CY + 2 Est. IP %	CY + 2 Est. IP $	CY + 3 Est. Outlays	CY + 3 Est. IP %	CY + 3 Est. IP $
USF – HC**	$4,161.04	0.06%	$2.63	$3,744.68	0.08%	$2.80	$0.39	$2.41	$4,830.77	0.07%	$3.38	$4,938.04	0.07%	$3.46	$4,661.51	0.07%	$3.26
USF - S&L	$2,225.67	3.81%	$84.71	$2,286.31	6.33%	$144.65	$144.65	N/A	$3,232.01	6.00%	$193.92	$2,896.63	5.50%	$159.31	$2,695.99	5.00%	$134.80
USF – LL**	$1,819.43	0.32%	$5.88	$1,635.86	0.45%	$7.31	$7.31	N/A	$1,622.98	0.44%	$7.14	$1,640.99	0.44%	$7.22	$1,659.19	0.44%	$7.30
TRS	$868.53	0.08%	$0.71	$901.17	0.00%	$0.00	$0.00	$0.00	$911.60	0.00%	$0.00	$923.90	0.00%	$0.00	$935.00	0.00%	$0.00
TOTAL*	$9,074.67	1.04%	$93.93	$8,568.02	1.81%	$154.76	$152.35	$2.41	$10,597.36	1.93%	$204.44	$10,399.56	1.63%	169.99	$9,951.69	1.46%	$145.36

*These totals are not statistically valid.

**The targeted rates are essentially constant for USF-HC (0.07%) and USF-LL (0.44%) for FY 2016-FY 2018. Achieving a target rate below 1.00% is low enough to be considered aggressive and realistic. It would be difficult to achieve a rate much lower than 0.44% or 0.07%. In addition, the Commission plans to add more transaction points to its USF-HC, USF-LL and TRS testing during the next few years of assessments. As a result, the Commission does not expect the error rate to decrease. In fact, it is likely the anticipated additional procedures will result in an increased number of errors that are identified.

IV. IMPROPER PAYMENT ROOT CAUSE CATEGORIES

Table 2 below categorizes the improper payments by root cause categories. Many of the USF improper payments do not fit logically into the improper payment root cause categories established by OMB. These payments are therefore categorized under an "Other Reason" category. The "Other Reason" categories are defined in Table 2 below or below Table 2 in a separate chart. We have also provided separate charts for S&L and LL below Table 2 to detail the root causes for the Insufficient Documentation to Determine category.

Table 2
Improper Payment Root Cause Category Matrix
($ in millions)

Reason for Improper Payment		USF – HC		USF – S&L		USF – LL		TRS	
		Overpayments	Underpayments	Overpayments	Underpayments	Overpayments	Underpayments	Overpayments	Underpayments
Program Design or Structural Issue		$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
Inability to Authenticate Eligibility		$0.00	$0.00	$1.65	N/A	$0.00	N/A	$0.00	$0.00
Failure to Verify:	Death Data	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
	Financial Data	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
	Excluded Party Data	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
	Prisoner Data	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
	Other Eligibility Data (explain)	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
Administrative or Process Error Made by:	Federal Agency	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
	State or Local Agency	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
	Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
Medical Necessity		$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
Insufficient Documentation to Determine (see tables below)		$0.00	N/A	$ 38.56	N/A	$3.34	N/A	$0.00	N/A
Other Reason (a) (Incorrect Part 36 and Incorrect Revenues)		$0.39	$2.41	N/A	N/A	$0.00	N/A	N/A	N/A
Other Reason (b) (see table below)		N/A	N/A	$ 104.44	N/A	$0.00	N/A	N/A	N/A
Other Reason (c) (Duplicate Subscriber)		N/A	N/A	N/A	N/A	$3.97	N/A	N/A	N/A
TOTAL		$0.39	$2.41	$ 144.65	N/A	$7.31	N/A	$0.00	$0.00

Insufficient Documentation to Determine (SL)	Improper Payments Amounts	
	Overpayments	Underpayments
Competitive Bidding	$ 4.44	N/A
Multiple documents missing	$ 26.28	N/A
Other	$ 1.07	N/A
Proof of Payment or Proof of Deposit	$ 4.54	N/A
Service Provider Bills	$ 2.23	N/A
Total Insufficient Documentation to Determine	$ 38.56	N/A

Insufficient Documentation to Determine (LL)	Improper Payments Amounts	
	Overpayments	Underpayments
Missing Subscriber Data	$ 1.17	N/A
Multiple Documents	$ 0.66	N/A
Inadequate Certifications	$ 1.36	N/A
One Per Household Rule	$ 0.07	N/A
Unsupported Subscriber Count	$ 0.08	N/A
Total Insufficient Documentation to Determine	$3.34	N/A

Other Reason (b) – Schools and Libraries	Improper Payments Amounts	
	Overpayments	Underpayments
Competitive Bidding	$ 15.18	N/A
Discount Calculation Error	$ 0.21	N/A
Failure to Pay Non-Discount Share	$ 0.82	N/A
Funding received by entities not on Form 471	$ 1.57	N/A
Ineligible Services	*$ 33.83	N/A
Internal Connections/Equipment Installed at Ineligible Location	$ 0.69	N/A
Internal Connections/Lack of Necessary Resources to Make Effective Use	$ 0.28	N/A
Internal Connections/Not Installed	$ 42.37	N/A
Invoicing Error	$ 9.33	N/A
SP LCP Confirmation/No Certification BEAR	$ 0.16	N/A
Total Other Errors	$ 104.44	N/A

*This figure was rounded down .01 to account for internal consistency.

V. CORRECTIVE ACTION PLANS

OMB guidance requires that agencies detail corrective action plans for those programs with improper payment rates or amounts above the statutory thresholds of either (1) both 1.5 percent of program outlays and $10 million, or (2) more than $100 million. For the Commission, USF-S&L is the only program that exceeds the statutory thresholds for FY 2015. Below, the Commission details its efforts to prevent and reduce future improper payments for the USF-S&L program. Some of the efforts apply to all of the root cause errors while others are specific to a particular category.

USF-S&L

Applicable to all Root Cause Categories

- This year, as part of USAC's strategic initiatives, USAC's Internal Audit group implemented a process for analyzing audit and assessment data in an effort to identify common findings. This "full circle" approach is allowing USAC to develop effective outreach tailored to address the most frequently violated FCC rules, improve internal controls, and revise policies and procedures accordingly.

- In response to a recommendation from the Government Accountability Office (GAO), the Commission and USAC jointly conducted a robust risk assessment of the USF-S&L program. The risk assessment, which was performed by an external contractor, was finalized in May 2015. The assessment team evaluated program and process risks and made numerous recommendations for ways that USAC and the Commission can strengthen internal controls to reduce improper payments and increase the effectiveness and efficiency of processes. The Commission and USAC are developing an action plan to implement the recommendations. The plan should be in place by 4Q 2016.

- The Commission and USAC are overhauling E-rate information collections and the IT systems. Improvements to USAC forms and IT systems will reduce the potential for improper payments. New, all-electronic forms will be easier to use and will retain information year-to-year, reducing user errors. As a result of improvements to IT systems, stakeholders will be able to share all documents with USAC in its portal, and USAC will have access to additional competitive bidding documentation, such as requests for proposals, which applicants are now required to upload in coordination with their FCC Forms 470. These changes will minimize the instances of over-invoicing for ineligible equipment, services not supported by bills, and/or services not approved or requested and will make it easier for USAC to determine compliance with competitive bidding rules. The IT changes are being phased in; they began in January 2015 and will continue over the next couple of years.

- The Commission is working with USAC on outreach activities designed to help participants successfully participate in the program and reduce the potential for errors and improper payments. These include reviewing top invoicing issues during monthly calls with E-rate stakeholders to educate participants on their obligation to remove ineligible services. Additionally, specific training related to this issue has been added to the applicant trainings being conducted by USAC in the fall of 2015. In May 2015, the Commission hosted a workshop to help applicants and service providers comply with new rules about the eligibility of fiber builds. Additional USAC outreach efforts include the in-person applicant trainings held in the fall, and in-person service provider trainings held in the spring; weekly news briefs educating applicants and service providers on program rules and procedures; special news briefs to address major changes; and monthly calls and/or webinars with various stakeholder groups including a monthly Service Provider Webinar.

Applicable to Specific Issues

- **Inability to Authenticate Eligibility:** In 1Q 2016, USAC plans to conduct outreach with states to assist with the identification of eligible entities; going forward, this will be performed on a biennial basis.

- **Insufficient Documentation to Determine:** In 2014, the Commission adopted two *E-rate Modernization* Orders that, among other things, extended the document retention period for the E-rate program to 10 years and clarified that E-rate applicants and service providers must permit auditors, investigators, attorneys or any other person appointed by a state education department, USAC, the Commission or any local, state or federal agency with jurisdiction over the entity to enter their premises to conduct E-rate compliance inspections.

- USAC is developing and implementing changes to its information technology systems that will further improve document retention compliance. Already, applicants have the ability to store many of their documents to the new information technology portal. USAC plans to expand the document storage option, so that applicants and service providers can store all of their relevant records. After the document portal is developed, applicants will be prompted during the form submission process to save documentation associated with the form in the portal. In addition, documentation that must be retained for audits will be identified and posted on the USAC website. The planned completion date for these activities is 3Q 2016.

- **Invoicing Errors:** USAC is developing and implementing changes to the information technology systems and interfaces that will minimize the instances of over-invoicing for ineligible equipment, services not supported by bills, and/or services not approved or requested. In addition, the USF-S&L Invoicing Team performs post-disbursement reviews, which includes the review of a sample of paid invoices, to check the performance of the automated invoicing procedures. The post-disbursement reviews are already in place. The other IT changes are being phased in; they began in January 2015 and will continue over the next couple of years.

  As noted above, USAC is implementing additional training for participants in the program, including reviewing top invoicing issues during monthly calls with USF-S&L stakeholders to educate participants on their obligation to remove ineligible services. Additionally, specific training related to this issue has been added to the applicant fall trainings that were conducted by USAC in the fall of 2015.

- **Internal Connections/Equipment Not Installed:** USAC is implementing additional outreach to inform schools and libraries that the equipment purchased with USF-S&L funds must be in use within the funding year in which the disbursement is received. In addition, during the next few funding years, USAC and the Commission will be investigating additional ways to reduce this error, including, for example, requiring an acknowledgement or confirmation by the school or library that the equipment is installed and in use before USAC will approve the reimbursement request.

- **Discount Calculation Error:** The *Second 2014 E-rate Modernization Order* directs USAC to simplify the calculation of discount rates to enable applicants to more easily manage the discount calculation process in advance of the E-rate application filing window. The changes to the rules adopted in the order, simplification of the discount rate determinations, and the IT improvements that USAC has made will make it easier for applicants to calculate their discount rates and for USAC to verify those discount rates.

VI. INTERNAL CONTROL OVER PAYMENTS

OMB guidance requires that agencies summarize the status of internal control over payments for those programs with improper payment rates or amounts above the statutory thresholds of either (1) both 1.5 percent of program outlays and $10 million, or (2) more than $100 million. For the Commission, USF-S&L is the only program that exceeds the statutory thresholds for FY 2015. Table 3 below summarizes the status of internal control over improper payments in order to link the Commission's efforts in establishing internal controls with the reduction in improper payment rates.

The Commission and USAC work together continually to develop and improve an internal control program in compliance with OMB Circular A-123 that provides reasonable assurance that internal controls over payments are in place and operating effectively. The program is consistent with the Standards for Internal Control in the Federal Government (Green Book) as well as the internal control framework established by the Committee or Sponsoring Organization of the Treadway Commission (COSO). USAC's internal control program has been functioning for several years with a dedicated staff that performs risk assessments, and documents and tests internal controls across the company, including internal controls over payments.

In FY 2015, in response to a recommendation from the Government Accountability Office (GAO), the Commission and USAC jointly conducted a robust risk assessment of the USF-S&L program. USAC hired an independent, external contractor to perform the risk assessment. The risk assessment was finalized in May 2015. The assessment team evaluated program and process risks and made numerous recommendations for ways that USAC and the Commission can strengthen internal controls to reduce improper payments and increase the effectiveness and efficiency of processes. The Commission and USAC are developing corrective action plans to implement the recommendations.

In FY 2015, USAC also performed an entity-level assessment in order to determine compliance with the standards and principles in the Green Book and COSO frameworks. The assessment team considered the results of the independent risk assessment and also gathered data through internal control questionnaires administered to key members of USAC management. Analysis of the data revealed the following:

- Control Environment: USAC's control environment emphasizes accountability, ethics, and has defined consequences for failing to comply with the code of conduct. Authority and lines of reporting are clearly defined. In addition, personnel involved in developing, maintaining, and implementing control activities have the knowledge and skill to do so.

- Risk Assessment: As mentioned, staff responsible for carrying out USAC's internal control program perform risk assessments on an annual basis. Assessments are performed for key financial business processes as well as for the programs (including the USF-S&L program). The assessments are designed to identify where risks exist, what those risks are, and the potential impact of those risks on program goals, objectives, and operations. Testing resources are focused on areas where there is greater risk exposure.

  In addition to risk assessments, in early FY 2015, USAC instituted a process for the USAC Performance Assessment and Reporting (PAR) team to perform an annual root cause analysis that requires the programs to develop action plans that address the root causes contributing to common audit findings, in addition to the specific corrective action responses to the audit finding. The root cause action plans include actions within USAC's control as well as a description of potential items to be addressed with the FCC related to program rules and administration, and identify any impediments that may hinder correction of issues. USAC provides the results of this analysis to the FCC on an annual basis.

- Control Activities: USAC has developed control activities to help achieve the objective of reducing improper payments. The control activities include, but are not limited to, the following: development of policies and procedures related to transaction authorization and approvals of program activities intended to mitigate the risk of improper payments; performance of pre-award reviews where detailed criteria are evaluated before funds are submitted for disbursement; and utilization of data analytics tools (e.g., the "red light" database) to compare information from different sources to ensure that payments are appropriate.

- Information and Communication: USAC uses and shares information internally and externally to reduce improper payments. In 2015, USAC implemented a strategic management process. Numerous strategic initiatives have been identified at both the corporate and divisional levels; several initiatives address cost-effective program execution with an emphasis on program integrity and outcomes. Progress toward initiatives is reported regularly, providing managers with timely feedback on applicable performance measures so they can use the information to effectively manage their programs.

  Board meetings are held on a quarterly basis. The USAC Board is appointed by the FCC and comprised of individuals from both the private and public sector who represent external stakeholders. These meetings provide an additional mechanism to obtain information relevant to external stakeholders that may have a significant impact on improper payment initiatives. In addition, the programs conduct a variety of external outreach (e.g., training sessions, newsletters) to assist program participants in understanding program requirements.

  Finally, USAC and the FCC have ongoing communications of both a formal and informal nature. These communications address a variety of topics that include, but are not limited to, improper payment prevention and reporting, and improvement to internal controls.

- Monitoring: USAC reviews and assesses the success of initiatives to reduce improper payments. As previously mentioned, USAC has an established internal control assessment methodology that includes testing of control design and operating effectiveness and the evaluation of the significance of internal control deficiencies. Corrective action plans to remediate deficiencies are assigned completion dates, and the internal controls team monitors deficiencies to ensure that they are remediated in a timely manner. Control activities are adjusted, as needed, based upon the results of testing. In addition, the annual root cause analysis requires the programs to develop action plans that address the root causes contributing to common audit findings, in addition to the specific corrective action responses to the audit finding.

  In addition, USAC adheres to existing laws and OMB guidance and uses a statistical methodology to estimate the level of improper payments being made by the programs. USAC and the Commission establish program-specific targets for reducing improper payments.

The analysis above, in conjunction with the results of the annual risk assessments, was used to complete Table 3.

Table 3
Status of Internal Controls

Internal Control Standards	USF – S&L
Control Environment	3
Risk Assessment	3
Control Activities	3
Information and Communication	3
Monitoring	3

Legend:
4 = Sufficient controls are in place to prevent IPs
3 = Controls are in place to prevent IPs but there is room for improvement
2 = Minimal controls are in place to prevent IPs
1 = Controls are not in place to prevent IPs

VII. ACCOUNTABILITY

OMB guidance requires that agencies summarize accountability for those programs with improper payment rates or amounts above the statutory thresholds of either (1) both 1.5 percent of program outlays and $10 million, or (2) more than $100 million. For the Commission, USF-S&L is the only program that exceeds the statutory thresholds for FY 2015. The Commission continues to work internally and with USAC's management to assess the effectiveness of program management necessary to ensure accountability over USAC's operations and senior leadership. The Commission is actively working with USAC's management to review and assess the effectiveness of current financial reporting requirements and to further efforts to reduce and prevent improper payments.

In FY 2015, USAC implemented a strategic management framework, whereby corporate, division and USF-S&L program objectives have been established in conjunction with the Commission, and numerous strategic initiatives have been identified that will contribute to the achievement of those objectives, including several initiatives that address cost-effective program execution with an emphasis on program integrity and outcomes. Progress on initiatives is reported on regularly, providing managers and decision-makers with timely feedback and measurement of progress toward achieving the strategic objectives.

VIII. AGENCY INFORMATION SYSTEMS AND INFRASTRUCTURE

OMB guidance requires that agencies detail information regarding the agency information systems and infrastructure for those programs with improper payment rates or amounts above the statutory thresholds of either (1) both 1.5 percent of program outlays and $10 million, or (2) more than $100 million. For the Commission, USF-S&L is the only program that exceeds the statutory thresholds for FY 2015.

The USF-S&L program's information technology systems are near the end of their useful life. The program's systems are critical to the operation and integrity of the program as schools and libraries apply for funding through the system, submit documentation, and review the status of their applications. In addition, USAC uses the systems to perform automated checks of applicant eligibility and the accuracy of their requests for commitment and disbursement of funding. Initially developed more than 10 years ago, the systems are expensive to maintain; are inflexible; have layers of patches and workarounds that have been implemented; and incorporate numerous hardware and software components that are no longer supported by the developer. A complete replacement is necessary in order to support the significant changes to the program and provide a positive user experience for the USF-S&L applicants and service providers.

In early FY 2015, USAC, working in conjunction with the FCC, conducted extensive market research on alternative IT solutions available for the USF-S&L program. USAC held meetings with consultants to gather feedback on the type of systems/applications best suited for the program. A vendor was selected in January 2015. USAC has committed to having a working system in place to support the program's funding year 2016 activities. Work has begun, and the first milestone – the entry of Form 470 information via an applicant portal – was achieved in June 2015.

In addition, under the Commission's oversight, USAC has expanded outreach designed to prevent the errors identified in the PQA process from recurring, enhanced internal controls and data collection to gain greater visibility into payment operations, calibrated audit and audit follow-up activities to gain greater certainty about beneficiary support, and modernized information technology systems to achieve greater efficiencies and improve reporting capabilities. External consultants have been contracted to assist with the equipment inventories being performed under the enhanced USF-S&L sampling. Additionally, the Commission and USAC are working to improve document retention compliance by developing a document portal for applicants and service providers to store their records. Information about what documentation must be retained for audits will be identified and posted on the USAC website. Finally, as discussed above, USAC has also increased the number of employees and resources to perform reviews of audit findings and recovery of funds.

IX. BARRIERS

The FCC has not identified any barriers, statutory, regulatory or otherwise at this time that may limit the agency's corrective actions in reducing IPs stemming from the USF-S&L program.

X. RECAPTURE OF IMPROPER PAYMENTS REPORTING

The following discussion is a summary of the Commission's payment recapture audits for FY 2015 for programs with more than $1 million in annual outlays.

USF

The Commission has directed USAC to conduct payment recapture audits as part of USAC's administration of the USF programs. The payment recapture audits for all four USF beneficiary programs are called the Beneficiary and Contributor Audit Program (BCAP). In addition to recovering funding that was improperly disbursed, the BCAP is also designed to evaluate USF beneficiary and contributor compliance with FCC rules. The payment recapture audit program in the FY 2015 BCAP was developed with the following objectives:

- Covering all four USF programs with disbursements;
- Tailoring audit type and scope to program risk elements, size of disbursement, audit timing, and other specific factors (*i.e.*, recognizing that the programs and beneficiary types are different, the audits do not adopt a "one-size-fits-all" approach);
- Keeping costs of the program reasonable in relation to overall program disbursements, to the amounts disbursed to the beneficiary being audited, and as a part of USF administrative costs;
- Ensuring that auditors receive proper training on the telecommunications industry and the USF rules and requirements;

- Spreading audits throughout the year to balance workload, improve efficiencies, control costs, reduce unnecessary burdens on beneficiaries, and maintain a pool of trained auditors; and
- Retaining capability and capacity for targeted and risk-based audits to be conducted as recommended by USAC management, the FCC, or law enforcement entities.

The Commission and USAC have examined the results of the audits and assessment programs conducted for FY 2015 and have implemented a corrective action plan in response to any findings and consistent with Appendix C and OMB Circular A-50. In addition, the Commission and USAC have incorporated the lessons learned from each recommendation into future audit and assessment efforts.

USAC completed 66 audits in FY 2015, of which 35 involved overpayments. Of these, auditors have identified $5,188,072 to be recovered. USAC is in the process of recovering those amounts.

Below are the number of audits performed and the estimated recovery amounts, by program:

Program or Activity	# Audits	# Audits with Overpayments	Estimated Recovery
USF-HC	20	6	$315,222
USF-S&L	20	13	$3,824,270
USF-LL	24	14	$216,715
USF-RHC	2	2	$831,865
Total	**66**	**35**	**$5,188,072**

Most overpayments are due to violations of program rules by beneficiaries and service providers. USAC and the Commission continue to develop preventive measures to identify those potential overpayments and eliminate them, using the strategies discussed below. USAC develops corrective action plans and seeks recovery of overpayments in accordance with OMB Circular A-50 and the Commission's internal audit directive. For each audit, USAC develops a corrective action plan, which the Commission reviews and approves. For audits of USF-HC and USF-LL, USAC notifies the auditees of findings and any recovery amounts. USAC recovers the funding by offsetting the overpayments against future payments, as applicable. For USF-S&L and USF-RHC, USAC seeks recovery but does not offset the overpayments against other expected funding. In addition, at the end of each fiscal year, USAC develops a root cause action plan to identify commonalities across the audits for each programs. USAC then makes recommendations regarding any changes to internal controls or policies and procedures to identify issues prior to disbursements. For further details regarding the efforts underway, see the discussion above for USF-S&L in the corrective action plan section, Section V. USF-S&L audit findings are similar to the improper payments identified in the sampling process so the same improvements will be used to prevent audit findings in the future.

For USF-LL, corrective actions will include, but not be limited to, the following activities: (1) updating form filing systems to remind carriers of required documentation requirements; (2) leveraging the quarterly newsletter throughout the year to provide relevant information on key USF-LL processes that result in common mistakes, i.e., focus on recertification before the peak processing period when it would be most helpful to carriers; (3) enhancing the existing USAC website information on common audit findings to ensure compliance; and (4) developing additional training tools such as online videos and testing for carriers to measure their understanding of program requirements. Note that some proposed changes for all of the programs may require a rulemaking or other action by the full Commission to implement. For example, the Commission is currently considering changes to the USF-LL program that could reduce improper payments by more directly reforming eligibility verification.

For USF-HC, in July 2015, all eligible telecommunications carriers timely filed their annual reports through an electronic filing system for FCC Form 481, which includes operational and financial information and certifications. This electronic filing system improves the ability to oversee ETC program participation and compliance. Other actions include additional outreach, such as monthly newsletters, webinars, videos and FAQs. USAC is also creating a dedicated website that references rules established by orders, such as specific direction regarding documentation requirements. Going forward, both the website and newsletters will reference specific rules and regulations concerning systems for collecting, reporting and monitoring data and provide guidance regarding steps carriers can take to ensure accuracy of data and form submissions. These references will address the top audit findings and will provide preventive measures and resources so that beneficiaries can avoid these audit findings.

The USF-RHC program is continuing to evolve following a reform order adopted by the Commission in 2012. The RHC audits with findings in FY 2015 were audits of the Commission's pilot program for health care providers. That program has been transitioned into the Healthcare Connect Fund so Commission efforts to prevent improper payments are focused on the new program. They include a new IT system and greater outreach to participants.

To assist in the completion of payment recapture audits in FY 2015, USAC hired outside auditors to conduct some of the program audits. After conducting a two-tier procurement process, USAC selected the following auditors: KPMG (USF-S&L and USF-HC), Cotton & Company (USF-HC), BCA Watson Rice (USF-RHC), DP George (USF-RHC and USF-LL), Williams Adley (USF-S&L), PwC (USF-S&L), and Moss Adams (USF-HC).

USF-Admin

For payment recapture audits, USAC's Internal Controls team performed testing of administrative and payroll expenses disbursed during the 2015 calendar year. The Internal Controls team selected a sample of 30 invoices and inspected each payment to verify that payments were only processed for goods or services received, invoices aligned with Purchase Orders, and that payments were accurate and appropriately approved in compliance with company policy. No improper payments were identified in the sample. The Internal Controls team also selected a sample of 30 corporate charge card expenses and a sample of 30 out of pocket reimbursements paid from January 1, 2015 to June 30, 2015. No improper payments were identified in the samples.

Finally, the Internal Controls team inspected the payroll reconciliations performed for a sample of three payroll processing periods during testing period of January 1, 2015 to June 30, 2015. The team reviewed documentation to ensure that time and attendance reports appropriately reconciled to the payroll reports and that HR management reviewed and approved the documentation prior to payment. All of the documentation reviewed was deemed appropriate and no exceptions were noted.

In addition, each year, an agreed-upon procedures (AUP) review is conducted by an independent audit firm on USAC's administrative processes. DP George was hired to conduct the AUP audit this fiscal year. Included in this review are procedures designed to determine if any overpayments have been made concerning fund administration. Results of the 2014 calendar year AUP review continued to demonstrate that USAC administrative outlays are low-risk and there were no findings of overpayments. In addition, the Commission closely monitors the USAC administrative outlays through review of USAC's quarterly program demand filings and monthly administrative expense statements.

USAC has not identified any overpayments in the payment recapture audits of its administrative outlays, but if it did, it would seek recovery in accordance with the audit follow-up procedures outlined in OMB Circular A-50.

TRS

The TRS Fund compensates telecommunications relay service providers for the reasonable costs of offering services, in compliance with the Commission rules, that enable individuals who are deaf, blind, or have a hearing or speech disability to communicate in a manner that is functionally equivalent to voice telephone users. RL, the TRS Fund Administrator, awarded a contract by the FCC and under its oversight, is responsible for the collections and disbursements from the TRS Fund.

RL conducted audits in FY 2015 focusing on TRS providers' user registration processes. All TRS providers certified to offer IP Relay or VRS service were audited, totaling seven audits. The reports include findings and observations with recommendations. Findings included the following: user certification requirements not being met, and user identification verification dates not being captured. Observations included the following: training not being conducted regarding authorized use of customer proprietary network information (CPNI), the provider not having a formal data breach procedure, and the provider not having a procedure in place to verify the status of CPNI approval before using, disclosing or providing access to customer's CPNI. RL is currently finalizing audits covering the period from July 1, 2014 to June 30, 2015. For all audits, the Commission will work with RL to ensure that all findings and observations are addressed and remediated by providers and that RL implements a corrective action plan for each of the findings. TRS outlays for FY 2015 totaled approximately $900 million. RL has not identified any overpayments in its payment recapture audits, but if it did, it would seek recovery in accordance with the audit follow-up procedures outlined in OMB Circular A-50.

NANP

NANP is the basic numbering scheme permitting interoperable telecommunications services within the U.S., Canada, Bermuda, and most of the Caribbean. NeuStar, Inc. is the NANP Administrator, and Welch LLP is the billing and collection agent. NANP Fund disbursements, excluding bank fees, totaled approximately $5.8 million in FY 2015. Welch, as the billing and collection agent of the NANP Fund, oversees disbursements for the NANP program.

In FY 2015, Welch tested 92% of the transactions representing $5.3 million for improper payments and found no overpayments to recapture. In addition, in connection with the NANP Fund annual financial statement audit for FY 2014, an independent auditor tested approximately $1.5 million in disbursements, which represented 25 percent of the approximately $6.2 million in total disbursements, and found no improper payments. Nonetheless, to further safeguard against overpayments, Welch reviews each transaction for completeness and to ensure compliance with Commission requirements and relevant regulations, as part of Welch's internal control measures. Moreover, disbursements to NeuStar and other service providers are based on fixed price contract awards by the Commission requiring approval by the Commission's contracting officer. Also, an annual AUP engagement was conducted by Ernst & Young LLP to assess internal controls and compliance with the Fund's requirements and Commission rules. Welch has not identified any overpayments in its payment recapture audits, but if it did, it would seek recovery in accordance with the audit follow-up procedures outlined in OMB Circular A-50.

FCC

Overseen by the Office of Managing Director (OMD), the Commission's operating expenses are separated into two categories: (1) payroll expenses, *i.e.*, compensation and benefits related to employees' pay; and (2) non-salary disbursements such as travel expense, rent, building maintenance, training, and contractor expense.

Under the salary testing process, the Commission staff selected 50 transactions for review representing $212,648 from the universe of payments. The Commission staff tested the disbursement of salary transactions to determine if any employee's salary, or other compensation and benefits, were overpayments. Under the non-salary testing process the Commission staff selected 50 transactions for review representing $218,227. The Commission staff tested the disbursement of non-salary transactions to determine if: (1) payments were made to an ineligible recipient, (2) payment was made for an ineligible service, (3) duplicate payments were made, (4) payment was made for services not rendered, (5) prompt payments were made, (6) all signatures required were made, and (7) all payment amounts were correct.

For FY 2015, the payment recapture audits conducted by Commission staff on a sample of the Commission's operating expenses had no identified overpayments. The Commission's outlays for FY 2015 totaled approximately $450 million, excluding intra-governmental custodial payments as allowed by OMB. All disbursements transactions tested for salary and for non-salary transactions were selected from the July 1, 2014 to June 30, 2015 universe of transactions. The Commission has not identified any overpayments in its payment recapture audits, but if it did, it would seek recovery in accordance with the audit follow-up procedures outlined in OMB Circular A-50.

<u>Payment Recapture Audit Reporting</u>

In Table 4 below, the Commission reports the amounts identified in FY 2015 payment recapture audits and corresponding recapture rate targets. Table 4 also includes overpayments identified and recaptured outside of payment recapture audits. Overpayments identified and recaptured outside of the payment recapture audits may include, but are not limited to, improper payments identified through statistical samples conducted under IPERIA (known as the PQA program for USF); internal review processes (i.e. commitment adjustments, in-depth validations, etc.); OIG audits; self-reporting; or investigations. As directed by OMB, the chart includes overpayments identified and recovered in FY 2015, regardless of the time period the audit covered or when the overpayment was actually made.

The targets for USAC-Admin, TRS, NANP, and FCC are "not applicable" because no audit findings were identified. For USF programs, the recovery rates can vary widely from year to year. The recovery rates – and therefore future targets – can typically be less than 50 percent annually, primarily because participants in the programs have the right to appeal the improper payment findings, and sometimes may appeal multiple times at different levels of the process (e.g., to USAC and then to the Wireline Competition Bureau at the Commission). As such, it is unlikely that all identified overpayments can be recovered within the same fiscal year they are identified.

The process proceeds as follows: USAC performs audits throughout the year, and after an audit is completed, it must be approved by the USAC Board of Directors in a quarterly Board meeting. If an overpayment is identified, the relevant program division is responsible for sending program participants a letter adjusting their funding amounts s for the funding years audited. In addition, prior to adjusting the funding amounts based on the audit finding, the program division may perform additional work to determine if an error identified within the scope of the audit existed in other time periods as well. After the decision of USAC to seek recovery of funding identified as an overpayment, applicants and service providers have 60 days to appeal to USAC, or they may file a waiver request directly with the Commission. If the appeal is to USAC, petitioners are afforded an additional opportunity to appeal USAC's decision to the Commission. Most appeals to the Commission are decided by the Wireline Competition Bureau. After an initial appeal order is released by the Wireline Competition Bureau, petitioners have the right to seek reconsideration or further review by the full Commission. The full appeals process, therefore, can take a significant amount of time, which then affects the time period by which recoveries can be completed. If applicants and service providers avail themselves of the right to appeal audit findings to the Commission, it is unlikely that USAC will be able to recover the funding within the fiscal year.

Table 4
Improper Payment Recaptures with and without Audit Programs
($ in millions)

	Overpayments Recaptured through Payment Recapture Audits													
	Contracts					Benefits								
	Amount Identified	Amount Recapture	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Total		Overpayments Recaptured Outside of Payment Recapture Audits	
Program or Activity											Amt Identified	Amt Recaptured	Amt Identified	Amt Recaptured
USF-HC	N/A	N/A	N/A	N/A	N/A	$0.32	$0.66	206.25%	80.00%	95.00%	$0.32	$0.66	$0.01	$0.28
USF-S&L	N/A	N/A	N/A	N/A	N/A	$3.82	$0.19	4.97%	40.00%	50.00%	$3.82	$0.19	$7.85	$3.69
USF-LL	N/A	N/A	N/A	N/A	N/A	$0.22	$0.24	109.09%	80.00%	95.00%	$0.22	$0.24	$38.38	*$32.36
USF-RHC	N/A	N/A	N/A	N/A	N/A	$0.83	$0.41	49.40%	50.00%	70.00%	$0.83	$0.41	$0.40	$1.90
USAC Admin	$0.00	$0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.01	$0.01
FCC	$0.00	$0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NANP	$0.00	$0.00	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
TRS	N/A	N/A	N/A	N/A	N/A	$0.00	$0.00	N/A	N/A	N/A	N/A	N/A	$0.21	$0.21
TOTAL	$0.00	$0.00	N/A	N/A	N/A	$5.19	$1.50	28.90%	62.50%	77.50%	$5.19	$1.50	$46.86	$38.45

*This includes approximately $20 million received by the Department of Justice in FY 2015 but transferred to the Commission in FY 2016.

The Commission reports in Table 5 the disposition of recaptured funds from FY 2015 payment recapture audits.

Table 5
Disposition of Funds Recaptured Through Payment Recapture Audits
($ in millions)

Program or Activity	Amount Recovered *(This amount will be identical to the "Amount Recovered" in Table 4)*	Type of Payment *(contract, grant, benefit, loan, or other)*	Original Purpose
USF - HC	$0.66	Benefit	$0.66
USF – S&L	$0.19	Benefit	$0.19
USF - LL	$0.24	Benefit	$0.24
USF - RHC	$0.41	Benefit	$0.41
USAC Admin	$0.00	Contract	$0.00
FCC	$0.00	Contract	$0.00
NANP	$0.00	Contract	$0.00
TRS	$0.00	Benefit	$0.00
TOTAL	$1.50		$1.50

The Commission reports in Table 6 the aging of its outstanding overpayments from the payment recapture audits performed in FY 2015.

Table 6
Aging of Outstanding Overpayments Identified in the Payment Recapture Audits
($ in millions)

Program or Activity	Type of Payment *(contract, grant, benefit, loan, or other)*	Amount Outstanding (0 – 6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectable *(include justification in Payment Recapture Narrative))*
USF-HC	Benefit	$0.28	$0.00	$2.65	$0.00
USF-S&L	Benefit	$3.49	$0.19	$39.43	$0.00
USF-LL	Benefit	*$0.00	**$0.00	$6.91	$0.00
USF-RHC	Benefit	$0.53	$0.00	*$0.00	$0.00
USAC Admin	Contract	N/A	N/A	N/A	N/A
NANP	Contract	N/A	N/A	N/A	N/A
FCC	Contract	N/A	N/A	N/A	N/A
TRS	Benefit	N/A	N/A	N/A	N/A
TOTAL		$4.30	$0.19	$48.99	$0.00

*When carried out to three decimal places, the amount is $0.002.
**When carried out to four decimal places, the amount is $0.0003.

XI. ADDITIONAL COMMENTS

None.

XII. AGENCY REDUCTION OF IMPROPER PAYMENTS WITH THE DO NOT PAY INITIATIVE

The Commission reports its efforts related to improper payment reduction by reporting component, except the USF programs are combined with the USAC admin component.

Table 7 – FCC
Results of the Do Not Pay Initiative in Preventing Improper Payments
($ in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases	9,268	$126.20	1	*$0.00	1	*$0.00
Reviews with databases not listed in IPERIA	N/A	N/A	N/A	N/A	N/A	N/A

*When carried out to five decimal places, the amount is $0.00002.

Pursuant to the Do Not Pay Initiative, the FCC has incorporated the IPERIA listed Do Not Pay (DNP) database and the continuous monitoring program into our existing business processes. Monthly, the FCC generates an updated vendor file to be placed on Treasury's server. This file is matched with the Death Master File of the Social Security Administration (DMF), the General Service Administration's Excluded Parties List System (EPLS) and the System for Award Management (SAM). If there are any stopped payments, the FCC will research the item and contact the vendor. If it is a positive match, the FCC will tell the vendor to contact Treasury for details regarding the stopped payment. If the match is a false positive, the FCC will submit an Adjudication report to Treasury. If there are no matches, the FCC saves the report to end the process.

Below are the results from FY 2015:

1. No report submitted for October – no matches identified for this month, so no report was necessary.
2. No report submitted for November – no matches identified for this month, so no report was necessary.
3. No report submitted for December – no matches identified for this month, so no report was necessary.
4. No report submitted for January – no matches identified for this month, so no report was necessary.
5. No report submitted for February – no matches identified for this month, so no report was necessary.
6. No report submitted for March – no matches identified for this month, so no report was necessary.
7. No report submitted for April – no matches identified for this month, so no report was necessary.
8. No report submitted for May – no matches identified for this month, so no report was necessary.
9. No report submitted for June – no matches identified for this month, so no report was necessary.
10. No report submitted for July – matches were identified but no report was submitted.
11. No report submitted for August – no matches identified for this month, so no report was necessary.

12. No report submitted for September – no matches identified for this month, however a report was submitted to adjudicate an item match from July. The payment was a "Proper Payment."

In reviewing the Commission's summary reports, the Commission came to the following conclusions:

- The FCC rarely has matches on the Death Master File;
- The FCC has monitored payments to employees as well as vendors; and
- The reconciliation of matches all proved to be false positives.

Red Light process. The Commission has adopted a rule that prohibits the Commission from paying or processing requests from parties that owe a debt to the Commission or its reporting components. For example, a regulated telecommunications carrier may be delinquent on its annual required regulatory fees. To prevent payments from being disbursed in violation of this Commission rule, the Commission's reporting components listed below check the Commission's "Red Light" database for parties that should not receive payment.

Daily, Commission staff receive a list of the parties with outstanding bills. The red light status of those parties is updated in the Commission's Genesis system. If multiple parties share a Taxpayer ID number, they are all updated accordingly. Commission staff then creates a file with the latest data and sends that report to the reporting components. Finally, Commission staff updates the red light display system. Commission staff do not check the Commission's disbursements against the Red Light file as typically Commission vendors would not also be Commission or program debtors.

Table 7 – USF
Results of the Do Not Pay Initiative in Preventing Improper Payments
($ in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases	N/A	N/A	N/A	N/A	N/A	N/A
Reviews with databases not listed in IPERIA	78,640	$8,118.78	1,442	$71.11	N/A	N/A

USAC has established policies and procedures related to the Improper Payment Initiative and is currently awaiting approval from the Treasury Department to participate. Currently, USAC checks payments against the Commission's Red Light file to prevent improper payments before the release of funds. USAC currently does not track entities placed on the Red Light List in error. Plans are underway to begin tracking this information for fiscal year 2016.

Table 7 - NANP
Results of the Do Not Pay Initiative in Preventing Improper Payments
($ in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases	N/A	N/A	N/A	N/A	N/A	N/A
Reviews with databases not listed in IPERIA	See narrative below	See narrative below	See narrative below	See narrative below	See narrative below	See narrative below

Payments to NeuStar, Welch LLP, USAC, and Ernst & Young LLP are made when the FCC contracting officer approves the invoices for payment. Payments to Neustar and Welch are made according to their respective contracts. Payments to USAC are paid when Welch LLP is invoiced. Ernst & Young LLP is paid as per quote. None of these payments are checked against the Red Light or the Do Not Pay lists.

Welch, LLP does not check disbursements against the Do Not Pay databases because the Treasury Department will not provide Welch with access to the databases because Welch is not a U.S. company. All refunds to contributors are checked against the Red Light List. Welch does not currently track the payments it does not disburse because the payee is on the Red Light List. The amount and value of those payments will vary from month to month.

Table 7 – TRS
Results of the Do Not Pay Initiative in Preventing Improper Payments
($ in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases	N/A	N/A	N/A	N/A	N/A	N/A
Reviews with databases not listed in IPERIA	428	$918.46	22	$0.24	0	$0.00

RL, the TRS Administrator, plans to integrate Do Not Pay into accounts receivable and accounts payable system modifications to be undertaken early in 2016. Until then, RL will continue to consult the FCC's Red Light file to check for entities that owe the Commission money and therefore should not receive payments under Commission rules.

UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: October 19, 2015

TO: Chairman Wheeler
Commissioner Clyburn
Commissioner Rosenworcel
Commissioner Pai
Commissioner O'Rielly

FROM: Inspector General

David L. Hunt by Jay Keithley Counsel to IG.

SUBJECT: Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting the annual statement summarizing its assessment of the most serious management and performance challenges facing the Federal Communications Commission (FCC) in Fiscal Year 2015 and beyond. During its audits and investigations, OIG has worked with FCC managers in recommending actions that best address these challenges. Additional information on OIG audits and investigations can be found in the most recent Semiannual Report to Congress.

Universal Service Fund Programs

The Telecommunications Act of 1996 created the framework for the Universal Service Fund (USF or Fund), which consists of support mechanisms for: (l) providing financial support to eligible telecommunications carriers that serve high-cost areas; (2) assisting schools and libraries with telecommunications and internet services; (3) assisting low-income consumers obtain affordable telephone service; and (4) assisting rural health care providers with access to telecommunications and internet services. The Fund is administered by the Universal Service Administrative Company. The Office of Inspector General has ongoing audits and is supporting investigations addressing allegations of fraudulent activity involving the Fund.

Comprehensive reforms in all of the USF programs, including contributions, along with implementation of the Connect America Fund will require a significant investment of Commission resources. Establishing direction and policy, managing transition, and ensuring that all USF program rules and regulations contribute to effective and efficient programs is a significant management challenge.

High Cost Program

The USF High Cost program provides $4.5 million annually to ensure that robust, affordable voice and broadband service, both fixed and mobile, are available to Americans throughout the nation. Under the USF (Intercarrier Compensation) ICC Transformation Order issued in 2011, and subsequent clarifying orders, the High Cost program is transitioning to support multi-purpose networks capable of broadband and voice, while phasing out support for voice-only networks. During this transition period, the High Cost program will utilize separate support mechanisms for the legacy program and for the new Connect America Fund. The Connect America Fund will rely on incentive-based, market-driven policies, utilizing methodologies such as competitive bidding, to distribute universal service funds as efficiently and effectively as possible. Ensuring the reforms have their intended effect and continuing to resolve outstanding investigations remain significant management and performance challenges.

Schools and Libraries Program

In 2014, the Schools and Libraries program, often called E-rate, provided $2.3 billion in support to about 36,000 eligible entities. In its 2014 Modernization Order, the Commission adopted program goals and measures to ensure schools and libraries have access to affordable high speed broadband internet services. The order simplified the application process, and promotes transparency by sharing of cost and other program information among E-rate recipients and vendors; encourages use of bulk-buying methods, such as state master contracts and consortia purchasing. The order also reemphasizes that service providers must offer the lowest corresponding price when offering competitive bids and providing E-rate services. Recent audits and investigations indicate service providers continue to bill the Fund for ineligible services and facilities, overcharge entities for eligible services and facilities, and charge schools more than the lowest corresponding price. These audits and investigations also reveal that schools do not always abide by the Commission's competitive bidding rules when contracting for services and there is a risk that consultants could manipulate the discount rate in order to boost the school's funding, as well as their own commissions. Finally, there is a risk that services and facilities for which funding has been provided are not being delivered. Ensuring the E-rate program accomplishes its modernization goals in an efficient, fraud-free and cost effective manner remains a significant management challenge.

Lifeline Program

The Lifeline program continues to require significant OIG resources to combat waste, fraud and abuse. The USF Lifeline program was established in 1985 to ensure that low-income consumers have access to affordable phone service. In 2014, the Commission disbursed about $1.6 billion in Lifeline support to over 13 million low-income households. Although the Commission comprehensively reformed the Lifeline program in 2012 to require stricter oversight, including promulgating changes to the ways service providers must confirm consumer eligibility for support, many of these reforms have not yet been fully implemented. Moreover, during the last year, reports of fraud (largely involving the provision of service to ineligible individuals or the provision of multiple phones to eligible consumers) have increased significantly. Multiple federal criminal cases have been filed, and the cases that have been resolved to date, have resulted in guilty pleas. We believe that ensuring Lifeline reforms have their intended effect, and continuing to resolve outstanding investigations, remain significant management and performance challenges.

Innovation at the FCC

The FCC, along with the rest of the federal government, is being asked to use technology to a greater extent in order to reduce costs and achieve greater productivity, while also maintaining information security. During the past year, the FCC has undertaken significant initiatives to respond to these demands. Some of the initiatives include: transitioning to infrastructure that allows users to remotely connect to their FCC workstations, offering a cloud-based collaborative environment for email and office applications, and consolidating and moving more than 200 servers to a commercially-hosted facility in order to improve system availability during disruptions or spikes in user demand. While moving forward with new technologies that allow greater access to resources and enhanced collaboration capabilities, the FCC must ensure that the necessary personnel and processes are in place and working as intended to support day-to-day operations and its mission.

Federal Information Security Modernization Act

The FCC's information security program is not in compliance with Federal Information Security Act (FISMA) requirements, related OMB guidance, and National Institute of Science and Technology (NIST) standards. For several years, the FISMA evaluations conducted by OIG's independent auditors have reported numerous security weaknesses in the Commission's information technology infrastructure. The Commission has undertaken a major effort to address these security weaknesses, and made noticeable improvement in several areas. However, additional improvements are needed, as the Commission is in compliance with only 2 of the 10 FISMA reporting areas, remote access and security training. In order to fully address the noncompliance with FISMA, management must improve in key areas, such as providing adequate Chief Information Officer resources and executing information security policies and procedures. Determining how to ensure the agency's information security program continues to address previously identified weaknesses, while focusing on emergent issues is a significant management and performance challenge.

cc: Jon Wilkins, Managing Director
Ruth Milkman, Chief of Staff
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Office of the Managing Director

M E M O R A N D U M

DATE: November 13, 2015

TO: David L. Hunt, Inspector General

FROM: Jon Wilkins, Managing Director;
Mark Stephens, Chief Financial Officer
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SUBJECT: Management's Response to Inspector General's Management and Performance Challenges

Management appreciates the Office of the Inspector General's (OIG) memorandum, dated October 19, 2015, assessing the most serious management challenges facing the Federal Communications Commission (Commission or FCC) for fiscal year (FY) 2015 and beyond.

First, OIG states that establishing direction and policy, managing transition, and ensuring that all Universal Service Fund (USF) program rules and regulations contribute to effective and efficient programs is a significant management challenge. For the High-cost, Lifeline, and E-rate programs, OIG specifies program specific challenges, addressed below. Second, OIG states that as the Commission implements new technologies to support agency operations, the necessary personnel and processes must be in place and working as intended to support day-to-day functions and the Commission's mission. Third, determining how to ensure the agency's information security program continues to address previous identified weaknesses, while focusing on new issues, is a significant management and performance challenge.

As discussed below, strides continue to be made in these challenges identified by OIG. Management concurs with the OIG's conclusion that significant challenges remain in certain respects, however, the Commission will continue its efforts in the upcoming year to address and resolve these challenges.

First, the Commission continues to work closely in its role as overseer of the Universal Service Administrative Company (USAC) to monitor its implementation of the Commission's USF reform initiatives. The Commission also coordinates with state commissions, consumer groups, tribal governments, and telecommunications providers to provide feedback to better implement its directives. Below is a list of actions taken by the Commission throughout FY 2015 to address the challenges identified by OIG, including those related to the High-cost, Lifeline, and E-rate programs, As an initial matter, below is a summary of initiatives to improve direction and policy, managing transition, and ensuring all USF program rules and regulations contribute to effective and efficient programs.

- Completion by USAC of 66 audits of USF beneficiaries in FY 2015, which is indicative of the heavy emphasis that is placed on resolving management and performance challenges. Of these, approximately $5 million has been identified to be recovered and USAC has completed recovery for overpayments for more than 43 percent of these audits by September 30, 2015, and is in process of recovering the remainder.
- Expansion and intensification of efforts to identify, reduce, and recapture improper payments, consistent with the Improper Payments Elimination and Recovery Improvement Act (IPERIA) and Office of Management and Budget (OMB) Guidance. First, the Commission has expanded the number of procedures assessed as part of USF testing for improper payments. Second, the Commission is developing a new audit plan that directs USAC to increase the focus of audit resources on those recipients with higher disbursements and elevated risks, and increases the dollar amounts reviewed in the audits.
- Examination by USAC, per Commission direction, of the results of the audits and assessment programs conducted for FY 2015 and implementation of a corrective action plan in response to any findings, consistent with OMB Circular No. A-123 and OMB Circular No. A-50.
- Last year, the Commission created the Universal Service Fund Strike Force, which is housed in the agency's Enforcement Bureau (EB). The USF Strike Force is focused on safeguarding the USF. In the past year, the Strike Force initiated multiple investigations, referred USF criminal misconduct to the Department of Justice, supported DOJ fraud prosecutions, and coordinated joint activities with the FCC's Inspector General. While the details and specific targets of the investigations are not public at this time, the Strike Force's investigations and activities will promote future compliance, protect those who depend on the USF for access, and safeguard contributors to the USF from the unlawful acts of others.

High-Cost. In its Memorandum, OIG identifies the reforms in states, "[t]he Connect America Fund will rely on incentive-based, market driven polices, utilizing methodologies such as competitive bidding, to distribute universal service funds as efficiently and effectively as possible." In doing so, OIG states that to ensure these reforms have their intended effect and continuing to resolve outstanding investigations, remain significant management and performance challenges." The Commission continues to take action to address the implementation of reforms to the high-cost program and remains committed to resolving investigations. These actions are summarized below.

- In the *December 2014 Connect America Fund Order (December 2014 Connect America Order*), the Commission took significant steps to continue the implementation of the *2011 USF/ICC Transformation Order*, which comprehensively reformed and modernized the high-cost universal service program. The 2011 reforms established fiscally responsible, accountable, incentive-based policies to transition an outdated and inefficient high-cost program into the Connect America Fund. In the *December 2014 Connect America Order*, the Commission increased the broadband speed requirement to 10 Mbps/1 Mbps; finalized decisions necessary to proceed with the offer of Connect America Phase II model-based support to price cap carriers, including adopting a revised support term and build-out milestones; and took several steps to strengthen the uniform national framework of accountability established in 2011.

- In April 2015, the Commission extended the offer of model-based support. By the August 27, 2015 deadline, ten telecommunications carriers accepted over $1.5 billion in annual support for rural broadband deployment from the Connect America Fund to serve over 3.6 million homes and businesses by the end of 2020. This support, along with carrier investment, will expand broadband to nearly 7.3 million rural consumers in 45 states and one U.S. territory. In states where the carriers declined support, a competitive bidding process to be conducted at a future date will award funding. The carriers accepting support are AT&T, Cincinnati Bell, CenturyLink, Consolidated Communications, Fairpoint Communications, Frontier Communications, Hawaiian Telecom, Micronesian Telecom, Verizon (in two states subject to its transaction with Frontier) and Windstream.

- In May 2015, the Wireline Competition Bureau (WCB) released a compliance guide to assist eligible telecommunication carriers (ETCs) that are small businesses, small organizations (non-profits), and small governmental jurisdictions to comply with the revised annual reporting rules under the Connect America Fund.

- In July 2015, all ETCs timely filed their annual reports through an electronic filing system for FCC Form 481, which includes operational and financial information and certifications. This electronic filing system improves the ability to oversee ETC program participation and compliance.

- In July 2015, the WCB adopted a methodology for determining whether a rate-of-return study area is subject to a 100% overlap with an unsubsidized competitor, published a preliminary determination of which study areas were subject to the rule, and invited public comment on that analysis.

- During FY 2015, the Commission considered two requests for waiver of the FCC's rule imposing a $250 cap per line per month on total high-cost support. The Commission undertakes an extensive financial review of any entity requesting increased support above the cap. Two such reviews have been conducted in 2015: one resulted in the denial of a waiver of the FCC's $250 cap rule and one is pending.

- Continued implementation of the Mobility Fund established as part of the Connect America Fund in the *USF/ICC Transformation Order*. Phase I of the Mobility Fund will provide up to $350 million in USF high-cost universal service support to fund, on a one-time basis, the expansion of current-generation wireless services. Initial Mobility Fund support was awarded through a nationwide reverse auction held in September 2012, in which the winning bidders were eligible to receive a total of up to $299,998,632 in support awarded based on the lowest per-unit bid amounts. Auction 901 winning bidders were required to submit post-auction "long-form" applications by November 5, 2012. Since April 2013, the Commission has authorized initial disbursements for over $270 million in winning bids and announced $27 million in auction defaults. Of the authorized winning bids, five winning bidders subsequently defaulted on bids totaling over $55 million. The remaining application for support totaling $2 million is being actively processed. On February 25, 2014, the Federal Communications Commission completed the Tribal Mobility Fund Phase I Auction. The five winning bidders are eligible to receive a total of up to $49,806,874 in one-time Tribal Mobility Fund Phase I universal service support. Since June 2014, the Bureaus authorized the $49,806,874 in support. Mobility Fund Phase I was designed as a performance-based program under which USF support is conditioned upon the recipient's compliance with its performance obligations. In adopting rules for Mobility Fund Phase I, the Commission decided that it would require recipients of Mobility Fund support to provide an irrevocable stand-by letter of credit as financial security to secure the return of the USF funds disbursed if the recipient fails to fulfill its obligations. The Letter of Credit is required to be in an amount equal to the amount of support received plus an additional percentage of the amount of support as a performance default payment. Support payments are provided in three installments. Each party receiving support will be eligible to receive from USAC a disbursement of one-third of the total amount of support once its application for support is granted. A party will receive the remainder of its support after filing with USAC a report with the required data that demonstrates that it has met its performance requirements. Additionally, the Commission remains committed to resolving investigations into compliance with the Commission's rules for determining high-cost support.

- USAC issues monthly newsletters that list highlights of FCC Orders, industry highlights, and often provides tips on how to avoid common audit findings, as well as encourage carriers to review FCC rules and orders for compliance. USAC holds webinars to assist beneficiaries with program compliance related to FCC Forms 481 and 690. In addition, USAC has created videos, FAQs, and user guides to help beneficiaries with Form 481 and 690 compliance.

- USAC will create a dedicated website page that references rules established by orders, such as specific direction regarding documentation requirements, including the 10-year retention requirement. Going forward, both the website and newsletters will reference specific Rules and Regulations concerning systems for collecting, reporting and monitoring data and provide guidance regarding steps carriers can take to ensure accuracy of data and form submissions. For example, these references will address the top audit findings and will provide preventive measures and resources so that beneficiaries can avoid these audit findings.

Schools and Libraries Program. In its Memorandum, OIG references the achievements of the *2014 E-Rate Modernization Order*, including adopting program goals and measures, simplification of the application process, promoting transparency of cost and connectivity data among Schools and Libraries program (more commonly known as the E-rate program) rate recipients and vendors. OIG states recent audits and investigations indicate service providers bill the USF for ineligible services and facilities, overcharge for services and facilities, and charge more than the lowest corresponding price rule. In addition, OIG reports these audits and investigations reveal schools do not always comply with the competitive bidding rules and a risk of manipulation of the discount rate exists. Also, OIG states risks in the program concerning non delivery of services for which funding is sought. For these reasons, OIG states ensuring the E-rate program accomplishes its modernization goals in an efficient, fraud-free and cost effective manner remains a significant management challenge. We recognize these challenges and are pleased to report the strides made by the Commission to address these issues and other challenges as it continues to modernize the E-rate program. These actions are summarized below.

- In the *2014 E-rate Modernization Order*, the Commission improved the program's cost-effectiveness, set specific, ambitious goals for the broadband capacity delivered to schools and libraries – a short term target of 100 Mbps per 1000 students, and a longer term target of 1 Gbps per 1,000 students. – and re-purposed funding for Wi-Fi and robust broadband connections capable of supporting cutting-edge, one-to-one digital learning. Specific steps the Commission took in the *2014 E-rate Modernization Order* to combat waste, fraud and abuse of E-rate include:

    - Making additional funds available to support Wi-Fi and implementing applicant budgets services related to Wi-Fi. These budgets allow applicants to purchase the internal connections they need while discouraging them from purchasing unnecessary equipment or using an inefficient network design because the amount of funding an applicant receives is limited to its budget.

    - Reminding service providers that they not only must charge applicants the lowest corresponding price when providing E-rate services, but they must also offer the lowest corresponding price when submitting competitive bids to provide E-rate supported services.

  - Adopting district-wide discount rates, which reduces the likelihood of waste, fraud, and abuse in calculating discount rates because the classification of a small sample of students is less likely to affect an applicant's discount rate.

  - Extending the document retention period to 10 years and clarifying that E-rate applicants and service providers must permit auditors, investigators, attorneys or any other person appointed by a state education department, USAC, the Commission or any local, state or federal agency with jurisdiction over the entity to enter their premises to conduct E-rate compliance inspections.

- The Commission released the *Second 2014 E-rate Modernization Order* in December 2014 which directs USAC, working closely with Commission staff, to establish a robust performance management system to further improve the overall effectiveness and efficiency of the E-rate program. The components of this performance management system include simplifying the calculation of discount rates to enable applicants to more easily manage the discount calculation process in advance of the E-rate application filing window; exploring the possibility of creating online tools to assist applicants with the competitive bidding process; analyzing USAC's approach to cost-effectiveness reviews and work with the Commission to ensure the cost effectiveness process aligns with the program goals set out in the E-rate modernization orders; reviewing the pre- and post-commitment procedures and identify additional opportunities for data analysis, improved compliance oversight, and increasing efficiency through streamlining the process for application review and the commitment and disbursement of funding; and including financial management as a component of its performance management system.

- USAC and the Commission have also initiated a comprehensive outreach strategy designed to instruct schools and libraries on the E-rate rules, including rules related to competitive bidding and eligible services. The Commission organized a workshop to provide E-rate applicants, providers, and state and local policy makers with information and tools for planning fiber build projects under the new E-rate rules, with a focus on issues applicants need to consider in order to choose the most cost-effective option for deploying fiber.

- The Commission is working with USAC on outreach activities designed to help participants successfully participate in the program and reduce the potential for errors and improper payments are ongoing. These include reviewing top invoicing issues during monthly calls with E-rate stakeholders to educate participants on their obligation to remove ineligible services. Additionally, specific training related to this issue has been added to the applicant trainings being conducted by USAC in the fall of 2015. Additional USAC outreach efforts include weekly News Briefs educating applicants and service providers on program rules and procedures, Special News Briefs to address major changes, and monthly Service Provider Webinars.

- Beginning in funding year 2015, the Commission made pricing data, including information about the line item costs of specific services and equipment, publicly available. With this information, an applicant can compare the cost it pays for services with the cost paid by other applicants in its area for the same services. This enhanced price transparency should significantly lower the risk that service providers overcharge for services and facilities by providing schools and libraries with an accurate comparison of pricing data in their area.

- The Commission is also working with USAC to further improve USAC forms and IT systems. New, all-electronic forms will be easier to use and will retain information year-to-year, reducing user errors. The forms will also have built in logic designed to prevent entry of inaccurate information.

USAC and the Commission have jointly revised the FCC Form 471 to collect more precise data on the services and equipment funded by USF-S&L. As a result of improvements to IT systems, USAC will also have access to additional competitive bidding documentation, such as Requests for Proposals, which applicants will be required to upload to their FCC Forms 470. These changes will minimize the instances of over-invoicing for ineligible equipment, services not supported by bills, and/or services not approved or requested and will make it easier for USAC to determine compliance with competitive bidding rules.

- Finally, the Commission and USAC are working to improve document retention compliance by developing a document portal for applicants and service providers to store their records. Documentation that must be retained for audits will be identified and posted on the USAC website.

- The Schools and Libraries Program conducts extensive outreach activities to help program audiences successfully participate in the program. The outreach addresses issues identified through application reviews, invoice processing, and audits with the goal of increasing participants' knowledge of and compliance with program rules. Specifically, the Schools and Libraries Program holds applicant and service provider trainings in the form of video-conferences as well as in-person trainings and conducts monthly constituent conference calls. In addition, outreach materials are published in the form of electronic and printed materials which are provided to organizations that represent applicants and service providers and are posted to USAC's website along with online learning tools. USAC also has a robust internal controls process that reviews various segments of the operation to help ensure compliance and efficient and effective management of the program. Finally, USAC conducts one-on-one guidance through its HATS (Helping Applicants to Succeed) program which is designed to assess how USAC's processes work from the perspective of an applicant with the goal of providing guidance that is tailored to solve an applicant's specific challenges.

- USAC conducts an extensive pre-commitment review of applications, called the Program Integrity Assurance (PIA) process. The PIA process includes internal control activities designed to help ensure that commitments are only for eligible entities, products and services to help prevent improper payments.

- Annually, USAC and the Commission review the PIA procedures to determine how to improve the application review process and ensure compliance with FCC Orders. The results of audit findings are considered during the PIA procedure review process in an effort to improve program compliance.

- USAC conducts manual reviews for over 50% of the invoices submitted to USAC for reimbursement and requires the applicant and/or service provider to provide support for the requested invoice where needed.

- In an effort to detect improper payments, USAC conducts post-disbursement reviews of the invoices that underwent pre-disbursement automated reviews. The post-disbursement review obtains support for the requested reimbursement and verifies payments were properly issued.

Lifeline. In its Memorandum, OIG references the reforms to the Lifeline program in 2012 but states many reforms have yet to be fully implemented. Also, OIG states over the past year, reports of fraudulent activities have increased in the program. OIG states ensuring the Lifeline reforms have their intended effect, and continuing to resolve outstanding investigations, remain significant management and performance challenges. We recognize these challenges and are pleased to report the strides made by the Commission to address these issues and other challenges as it continues to reform the Lifeline program. These actions are summarized below.

- On June 18, 2015, the Commission adopted the *Second Further Notice of Proposed Rulemaking* (FNPRM), *Order on Reconsideration, Second Report and Order, and Memorandum Opinion and Order* (collectively, "Order") which took significant steps to modernize the Lifeline program by seeking comment on restructuring the program to better support 21st Century communications and building on existing reforms to protect against waste, fraud and abuse. The FNPRM both explores new ways to expand access to broadband and seeks comment on strengthening protections against waste, fraud, and abuse. Specifically, building on prior reforms in *the 2012 Lifeline Reform Order*, the FNPRM proposes streamlining and tightening the process of verifying consumer eligibility by taking eligibility determination out of the hands of providers. To do so, the FNPRM seeks comment on establishing a third-party "national verifier," coordinating with other federal needs-based programs, and considering the use of direct subsidies to consumers. The Commission also seeks comment on a budget for the program and reforms to Tribal Lifeline support. The FNPRM proposes minimum service standards for both voice and broadband service, including whether ETCs must provide broadband Lifeline service as well as voice and seeks comment on ways to encourage more competition in the Lifeline market to improve prices and services. The Order makes immediate programmatic changes to reduce waste, fraud and abuse, including requiring ETCs to retain documentation of consumer Lifeline eligibility, clarifying the term former reservations in Oklahoma to better target enhanced Tribal Lifeline support to Tribal areas, and ensuring transparency in program funds by rejecting a request for confidential treatment of provider de-enrollment information.

- Nearly all of the reforms adopted in the *2012 Lifeline Reform Order* have now been implemented. Indeed, the Government Accountability Office (GAO) noted in its 2015 report on the Lifeline program that the following eight major reforms were fully implemented: elimination of Link-up on non-Tribal lands, elimination of support for toll limitation service (TLS), the one per-household rule, uniform eligibility criteria, non-usage requirements, payments based on actual claims, audit requirements, and the establishment of the National Lifeline Accountability Database (NLAD). Other important reforms, including requiring ETCs to review proof of eligibility, have also been implemented. In its March 2015 report, the GAO identified only four reforms as "incomplete:" (1) setting a permanent reimbursement rate; (2) establishing a fully automated means of verifying eligibility; (3) defining performance goals and measures using up-to-date data; and (4) announcing how it would share the results of the Lifeline Broadband Pilot Program. Since the date of the GAO report, the Commission has made substantial progress toward completing all four of these remaining reforms. In its June 2015 FNPRM, the Commission proposed establishing a permanent support amount of $9.25. As mentioned above, the Commission also proposed to streamline the Lifeline eligibility process by seeking comment on a variety of options to remove the responsibility of conducting the eligibility determination from the providers, including further automation of the eligibility verification process. Now that the relevant data is available from the Census Bureau, the Commission will define performance goals and measures. Those definitions and progress towards its goals will be published by the WCB in this year's Universal Service Monitoring Report, to be released in the coming weeks. Lastly, in the WCB Lifeline Broadband Pilot staff report, the Commission shared the results of the Lifeline broadband pilots. The staff report serves as a reference document to complement the full release of subscriber data collected by providers during the Lifeline Broadband Pilot Program.

- In Fiscal Year (FY) 2015, the WCB and the Universal Service Administrative Company (USAC) worked to refine and strengthen the NLAD. In December 2014, USAC identified potential duplicates ("production duplicates") that had not been previously identified that may have entered into the NLAD as a result of the Third Party ID Verification (TPIV) override process. USAC acted quickly to eliminate these duplicate records from the system and make necessary system changes. First, in

February 2015, USAC made changes to the TPIV override process to make it more difficult to override a TPIV failure. In March 2015, USAC strengthened the duplicate logic to further ensure that duplicate subscribers could not be entered into the NLAD. Also in March, following notice to ETCs, USAC began de-enrolling the production duplicate records and by May 2015, USAC had de-enrolled all such records.

- Pursuant to the *2012 Lifeline Reform Order*, ETCs have additional audit responsibilities. Currently, there are three components to the audit plan: (1) the Biennial Audit; (2) the first-year ETC audits; and (3) audits of medium and small disbursements. In April 2014, the Commission released procedures for the Lifeline Biennial Audit. This audit requirement applies to ETCs who receive five million or more a year in reimbursement from the USF. In FY 2015, there were 28 ETCs who were subject to this audit, which tested the ETC's policies and procedures and certain key components of the program such as certification. The Biennial Audit covered approximately 94 percent of all the disbursements in the Lifeline program. Additionally, carriers who have been newly designated as ETCs are audited to review compliance of the ETC's procedures and practices with the Lifeline rules. Thus far, USAC has completed 53 first year audits, with 31 (26 completed, 5 in progress) in FY 2015.

- The available metrics indicate that reforms are having a tangible impact on waste, fraud and abuse in the program. For example, disbursements continue to decrease year-over-year, from a high of nearly $2.2 billion in 2012 to less than $1.7 billion in 2014. Disbursements are on pace to be even lower for 2015. In addition, de-enrollments for recertification and non-usage have declined year-over-year, suggesting that consumers are becoming more familiar with the rules of the program and the benefit is reaching those consumers who truly value the service.

- In its ongoing efforts to safeguard USF programs and to deter improper payments, the Commission's EB has undertaken several investigations involving carrier compliance with federal Lifeline program rules. Three such investigations were resolved during FY 2015 by entering into consent decrees with Lifeline service providers that failed to timely de-enroll ineligible subscribers and to maintain proper records. The consent decrees required the carriers to pay significant penalties and to adopt rigorous compliance plans related to their provision of Lifeline service. The plans outline a number of steps that the companies must take, including designating a senior corporate manager to serve as a compliance officer, developing a comprehensive compliance plan, and reporting regularly to the Enforcement Bureau on compliance, as well as other steps designed to ensure they are not overbilling the Lifeline program. Pursuant to the agreements, AT&T Services, Inc., paid a civil penalty of $6.9 million, The Southern New England Telephone Company (d/b/a Frontier Communications of Connecticut) paid $4 million, and YourTel America, Inc. (along with its affiliate, TerraCom, Inc.), paid a $3.5 million civil penalty to resolve the Lifeline consumer eligibility rule violations, in addition to resolving a separate investigation into whether the companies failed to properly protect the confidentiality of personal information they received from more than 300,000 consumers.

- In addition, the EB debarred Icon Telecom, Inc. (Icon), Wes Yui Chew (Chew), and Oscar Enrique Perez-Zumaeta (Perez-Zumaeta) from activities associated with the Lifeline program, including receiving Lifeline program funds. The debarments were imposed because Icon, Chew, and Perez-Zumaeta were each convicted of crimes in connection with fraudulent claims against the Lifeline program.

- Additionally, the Commission remains committed to resolving investigations into compliance with the Commission's rules for determining Lifeline funding.

- The Lifeline Reform Order established and clarified rules specifically addressing data collection and reporting as well as documentation and data retention. The Second Report and Order released on June 22, 2015 made additional rule changes including requirement to retain documentation proving eligibility for the entire time of subscribership, but no less than three years. This documentation was previously prohibited from being maintained. Retention of this documentation will allow for more thorough auditing of subscriber eligibility processes handled by carriers once implemented upon Paperwork Reduction Act (PRA) approval.

- USAC continues to maintain the NLAD to prevent duplicate benefits. USAC uses an iterative process to perform analysis of existing subscribers to identify any unusual trends that might indicate a duplicate subscriber, performs research and clean-up, and then modifies the system to prevent issues going forward. Current research in progress includes the inconsistent use of a suffix (Jr., Sr., III) which may give the appearance of two different last names for a single individual.

- In addition to duplicate detection, USAC performs data analysis on other anomalies in subscribership trends that require further attention to ensure compliance. USAC recently worked with carriers who had subscribers that were suspected to be deceased, resulting in de-enrollment of 125 out of 177 reviewed subscribers. USAC is currently performing a review of carriers who have entered phone numbers in NLAD that are not consistent with acceptable North American Numbering Plan formats.

- Currently, USAC educates carriers on Lifeline program rules in through the following:
    - Monthly webinars for NLAD users
    - Quarterly newsletter highlighting various program news and rules
    - Ad hoc email bulletins for important announcements
    - Training webinars for key events or system use such as the annual Form 555
    - Updates to website content for key Lifeline information and administrative matters
    - Individual outreach for unusual Form 497 filings and auditee support

- USAC has developed a strategic approach to evaluating the root cause of audit findings and developing additional processes to prevent these common errors. For Lifeline, this will include, but not be limited to, the following activities:
    - Updating form filing systems to remind carriers of required documentation requirements Leveraging the quarterly newsletter throughout the year to provide relevant information on key Lifeline processes that result in common mistakes, i.e., focus on recertification before the peak processing period when it would be most helpful to carriers
    - Enhancing the existing USAC website information on common audit findings to ensure compliance
    - Developing additional training tools such as online videos and quizzes for carriers to test their understanding of program requirements

- USAC notifies the EB, OIG, and state commissions of potential issues that may require their attention.

FCC Innovation. OIG highlights the significant technological initiatives undertaken by the FCC Information Technology (IT) team over the past year, including implementing virtual desktop remote access to FCC workstations, adopting a cloud-based, commercial, collaborative environment for e-mail, retiring over 100 legacy servers, and moving 200 servers to a commercially hosted federal data center. These important efforts culminated in an IT transformation such that the FCC's DC headquarters no longer has any servers on-premise – they have all been moved either to a commercial cloud or a commercial service provider consistent with the guidance from the OMB for all departments and agencies to achieve these goals.

OIG also states that while moving forward with new technologies that allow greater access to resources and enhanced collaboration capabilities, the Commission must ensure that the necessary personnel and processes are in place and working as intended to support day-to-day operations and its mission. If funding is continued in FY 2016, the IT team will be in a position to modernize its remaining legacy systems necessary for its day-to-day operations. This will include moving to an entirely cloud-based set of platforms eliminating the need for a data center and, therefore, its associated costs. As such, OIG's observation is key: It cannot be understated and it is incredibly important to understand that without continued funding none of the necessary upgrades can be accomplished.

Within the FCC, the IT team continues to remain on track to modernize our infrastructure, information, and communications technologies. Historically, the FCC created custom-developed IT systems without considering long-term costs and sustainment requirements. Having completed "Operation Server Lift" in 2015, the Commission now leverages cloud service offerings to the fullest extent possible, ensuring the service provider meets all government requirements for security, privacy, and reliability. For example, in FY 2015, the new FCC Consumer Help Desk, fully deployed in the cloud, was delivered for $450,000 instead of $3.2 million in-house development cost. The cost to maintain this cloud based system is only $100,000 per year instead of an estimated $640,000 per year if the FCC had custom built it.

As part of "Operation Server Lift" in September 2015, the Commission successfully moved all remaining legacy servers from its headquarters into a commercially operated federal data center with far greater scale, resiliency, more reliable up time, patching, and back-up. This move will reduce the costs to maintain the systems, improve their resiliency, and allow us to shift many of our legacy applications to the cloud. If FCC had to move its HQ data center in DC, the FCC would have spent $15M in build-out costs alone. "Operation Server Lift" was accomplished at a third of this cost.

Moving forward, FCC IT will be leading the Commission's shift to a data-centric approach that allows efficient access and interpretation of data to support the regulatory, enforcement, consumer engagement, and licensing missions across the organization's Bureaus and Offices.

Federal Information Security Modernization Act (FISMA). OIG recognizes major efforts and improvements to address FCC IT security. With the funds available in 2015, the FCC Chief Information Officer (CIO) led a team focused on improving the Commission's security posture leading to a 50 percent reduction in FISMA findings versus the last Fiscal Year. The efforts have placed the FCC in a position of strength as far as FISMA improvements.

It is important to note that many of the remaining FISMA findings will not be resolved without continued funding for modernization efforts to shift away from legacy IT. The remaining FISMA findings are the result of known issues with legacy systems, software, and hardware. FCC has been actively seeking and requesting IT resources to move away from these legacy systems, and as noted with FCC Innovation been working with the limited funds available to shift away from these legacy systems to commercial cloud solutions at all due speed.

OIG further states to address fully the remaining issues that are in noncompliance with FISMA, management must improve in key areas, to include providing adequate CIO resourcing to include personnel and funds. OIG's observation is key: under-resourcing the FCC's IT efforts to move away from its aging, legacy systems will make it difficult for FCC to fully meet all requirements of FISMA. The FCC would like to emphasize that accomplishing all of what FISMA requires includes moving off our legacy systems, something that is highly dependent upon receiving the necessary funding. Without the appropriate funding from Congress, accomplishing all of what FISMA requires from FCC will be impossible.

Assuming appropriate funding availability, the Commission will continue to address all weaknesses in its information systems and data stores and expects that upgrades in its systems, along with a strengthened staff, will eliminate a considerable number of the remaining findings. For these reasons, the Commission believes it has addressed and improved upon the challenges cited by OIG given the resources provided. As the organization continues to improve, upgrade and replace processes, software and systems, these actions will further strengthen the Commission's information security program.

<u>Conclusion.</u> Management looks forward to working with OIG to continue to address challenges to the Commission's operations and to strengthen further the culture of integrity, accountability, and excellence that exists at the Commission.

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