FEDERAL COMMUNICATIONS COMMISSION

Agency Financial Report

Fiscal Year 2016

(October 1, 2015 – September 30, 2016)

Federal Communications Commission
Office of the Managing Director

MEMORANDUM

Date: **April 27, 2017**

Subject: **Federal Communications Commission's FY 2016 Agency Financial Report**

Pursuant to Office of Management and Budget (OMB) Circular A-136, agencies are required to submit their Fiscal Year (FY) 2016 Agency Financial Reports (AFR) to OMB, the Department of the Treasury, the Government Accountability Office (GAO), and the United States Congress by November 15, 2016. On November 8, 2016, OMB approved an extension for the Federal Communications Commission (FCC or Commission) to publish its FY 2016 AFR. OMB granted the extension based on a request from the FCC due to legal concerns associated with disclosure of confidential auction payment amounts related to the broadcast incentive forward auction, which was ongoing at the time. OMB's extension granted the FCC until March 1, 2017 to publish its FY 2016 AFR. OMB did request that the FCC still release Chapter 3 of its AFR on November 15, 2016 as that Chapter does not pertain to the auction. The FCC did so accordingly.

On March 1, 2017, the FCC then published its FY 2016 AFR, which included all of the relevant Chapters required by OMB Circular A-136. Procedures adopted by the FCC to safeguard against potential anti-competitive behavior during ongoing auctions bidding required that information about certain auction payment amounts remain confidential until the public release of the auction results. Accordingly, the March 1, 2017 publication of the FY 2016 AFR included some redactions of auction related information to avoid legal issues that may have arisen from this information being made available to the public before the closing of the auction.

On April 13, 2017, the FCC published the final results of the incentive auction. As a result, the FCC is now publishing its full and final FY 2016 AFR with all redactions removed. The FY 2016 AFR covers the time period of October 1, 2015 through September 30, 2016, which is prior to the start of the current Chairmanship. As such, the Message from the Chairman included in the FY 2016 AFR is from the prior Chairman and was prepared as of November 15, 2016. The FCC would have published its FY 2016 AFR as of November 15 but for its efforts to maintain the confidentiality of the incentive auction information until the final results were public.

Sincerely,

Mark Stephens
Managing Director

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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) 2016. 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 eleventh consecutive year the FCC has obtained an unmodified opinion on its financial statements. The independent auditors' opinion addresses over \$10.5 billion in revenues, more than \$472 million in FCC operating expenses and more than \$10.1 billion in outlays for the Universal Service Fund and Telecommunications Relay Service Fund. Despite the positive audit opinion, the independent auditors' report shows that work remains at the FCC to continue to improve the agency's operations so it can continue to 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

After years of planning, and at the direction of Congress, the Commission is in the midst of the historic Incentive Auction to make available greenfield low-band spectrum by repurposing a portion of the broadcast TV band for wireless use. The auction began in March 2016, making available 126 megahertz of spectrum – the highest possible amount adopted by the Commission, and uses a market-based mechanism to match supply of spectrum offered by broadcasters with the demand of the wireless providers. The auction will close in FY 2017.

The Commission also continues to plan for the post-auction transition and repacking of TV stations. As part of this planning, in September, the Incentive Auction Task Force and the Media Bureau released for discussion and comment a proposed plan for calculating the order and schedule of station relocation efforts. The plan reflects input from broadcasters, wireless companies, tower crews, equipment manufacturers, and other stakeholders. We continue to prioritize planning for an efficient and effective transition with minimal disruption to the viewing public.

Fifth Generation Connectivity

This past July, the Commission took action to make the United States the first country in the world to identify and open up vast amounts of high frequency spectrum for 5G applications. Current blocks of licensed low-band spectrum are usually 5 to 10 megahertz in width. With 5G, however, we are looking at blocks of at least 200 megahertz in width. This will allow networks to carry much more traffic per user –

gigabits of throughput instead of megabits. The Commission is setting flexible rules that will allow the market to best determine how the technology will evolve, without having to ask our permission.

The new high bands being opened will be woven with the existing mid and low bands into networks that will provide coverage and high capacity for consumers and businesses In addition to licensed spectrum, unlicensed will continue to play a critical role in future networks. New unlicensed spectrum will be added to an existing unlicensed band to create a massive 14 gigahertz unlicensed band. We also plan to provide 600 megahertz within the 37 GHz band for shared access between commercial users and federal users. This band can provide access to spectrum where and when it's needed, and it will serve as a proving ground for policy and technical innovations to enable new forms of spectrum sharing between commercial and federal users.

Lifeline

In March, the Commission continued its efforts to modernize the Universal Service Fund Lifeline program, guided by the principles of competition and choice. Reforms are designed to encourage more providers to participate in the program so that competition in the marketplace can increase the value of the subsidy and provide choices for consumers. The Order allows qualifying low-income consumers to apply the $9.25 per month support to stand-alone mobile or fixed broadband service as well as bundled voice and data service packages. It also ensures that low-income consumers are not relegated to second class service and have choices that allow them to get the most value for the subsidy. It sets minimum service standards to ensure supported services meet modern needs. These benchmarks will be transitioned in over time to avoid undue disruption for existing lifeline providers and consumers. The Order also retains long-term support for voice service as part of a mobile voice and data bundle. At the same time, the Order anticipates technological advances in the convergence of mobile voice and data.

The order sets a five and one half year transition for requiring voice to be provided as part of a data bundle. To ensure voice remains affordable, it requires a mid-2021 program review and report by the FCC's Wireline Competition Bureau to assess the state of the Lifeline marketplace and propose recommendations to the Commission prior to the completion of the transition.

To encourage participation by broadband providers and thereby increase availability and consumer choice, the Order provides streamlined, nationwide entry to the Lifeline program for broadband providers. This is an additional, centralized option for those providers who seek a one-stop-shop Lifeline broadband designation.

The Order addresses remaining vulnerabilities to curb waste, fraud, and abuse. It establishes a National Eligibility Verifier as a neutral third-party entity that removes the opportunity for providers to enroll ineligible subscribers. It refines the list of federal programs that may be used to validate Lifeline eligibility to those that support electronic validation, are most accountable, and best identify people needing support. It increases transparency by making program data publicly available and understandable, including subscriber counts by provider and uniform disclosure of annual subscriber recertification data. To minimize impact on ratepayers, the Order establishes, for the first time, a Lifeline budget mechanism of $2.25 billion, indexed to inflation. This is a ceiling sufficient to allow for increased participation generated by support for broadband service. By making the program more efficient, the reforms contained in this Order will make Lifeline more effective at making broadband more affordable for low-income consumers.

Foreign Ownership of Broadcast Licensees

This September, the Commission extended to broadcast licensees the same streamlined rules and procedures that common carrier wireless licensees use to seek approval for foreign ownership, with appropriate broadcast-specific modifications. The rules modernize the Commission's processes so they are better adapted to the current business environment, which has obviously evolved over the decades. In addition, the Commission recognized the difficulty U.S. public companies face in ascertaining their foreign ownership, and established a framework for a publicly traded broadcast or common carrier licensee or controlling U.S. parent to ascertain its foreign ownership levels using information that is "known or reasonably should be known" to the company in the ordinary course of business, thereby eliminating the need for shareholder surveys. Taken together, these reforms will better harmonize the process with the one established in 2013 for other licensees, provide greater certainty for stakeholders, potentially enable greater investment in broadcaster licensees, and update the compliance methodology to better reflect the current marketplace.

Empowering People with Disabilities

I am especially proud of the Commission's efforts to advance the integration and independence of people with disabilities. With respect to policy development, we have continued to work with and benefit from the work of the Disability Advisory Committee (DAC). This team of approximately 40 consumer, industry, government, and academic stakeholders has a simple mandate – to provide the Commission with actionable recommendations on policies to improve communications access by people with disabilities. Since its inception in March 2015, the DAC has delivered 17 recommendations to the Commission, several of which the Commission has acted upon. For example, the Commission relied on the content of two of these recommendations to prepare a notice of proposed rulemaking intended to replace antiquated teletypewriter (TTY) technology with a more advanced form of telephone text communication called real-time text, for people who are deaf, hard of hearing or have speech disabilities.

Other policy advances include adoption of an industry-consumer consensus agreement to gradually increase the number of wireless telephone handsets that are hearing aid compatible over the next several years (with an ultimate goal of reaching 100%, if achievable, in 2024); transitioning our National Deaf-Blind Equipment Distribution Program from a pilot to a permanent program to ensure that low-income Americans who are deaf-blind can obtain accessible communications equipment; revising our rules governing the accessibility of emergency programming on television for people who are blind or visually impaired so that they can access this information aurally on "second screens" (such as laptops, tablets and cell phones); and developing an open source video access platform that will enable sign language users who are deaf or hard of hearing to communicate directly with federal agency and business call centers, rather than go through telecommunications relay services.

To this end, in October, the Commission's Consumer and Governmental Affairs Office (CGB) prepared and released a White Paper providing an in depth review of the barriers to and solutions for communications access by individuals with cognitive disabilities. This paper also includes proposals for future efforts to ensure that this population has access to our nation's communications systems. In addition, the Commission worked with consumer and industry stakeholders to put together a set of "Best Practices to Promote Effective Access to and Usability of information and communications technology (ICT) Products and Services for Americans with Cognitive Disabilities," endorsed by the Commission's DAC. This document outlines principles for an inclusive ICT ecosystem and a commitment to greater engagement for policymaking and innovation.

In addition to the above, the FCC has built a prototype program for federal agency employment of people with intellectual disabilities. In just under a year, we went from an idea to successful employment opportunities. Working closely with partners The Arc and St. John's Community Services, we have six new colleagues who have been a great match for our needs. We have a strong intern program with George Mason's LIFE program, providing young students with cognitive disabilities much needed experience in an office environment. To support our entire workforce, we developed in-house training designed to make all of us more sensitive to the needs of our colleagues. The next step is to help our contractors stand up to their responsibilities.

Finally, in June, we presented the Chairman's annual Advancements in Accessibility Awards, to recognize pioneering innovations to empower people with disabilities, including people with cognitive disabilities, with the accessible communications tools they need to become independent and productive.

Privacy

After months of talks with stakeholders, the Commission launched a proceeding in March to give consumers the tools they need to make informed decisions about how Internet Service Providers (ISP) use and share their data, and confidence that ISPs are taking steps to keep that data secure – all the while encouraging continued innovation by ISPs and other actors.

For the past six months, we have been listening, learning, and speaking with the public to determine the best way to achieve these goals. Parties engaged in this process have included – among others – consumer and other public interest groups, fixed and mobile ISPs, advertisers, app and software developers, academics, other government actors, and individual consumers. The Federal Trade Commission (FTC) input has been particularly helpful as a key partner in consumer privacy protection. I am pleased to report that, in October, the Commission adopted final rules to ensure broadband customers have meaningful choices, greater transparency and strong security protections for their personal information collected by ISPs.

Public Safety

The Commission has taken action to make the Wireless Emergency Alert life-saving service even more useful by incorporating lessons learned from the first four years of service and by levering technological advances. Acting on recommendations from public safety officials, the new Wireless Emergency Alerts will carry more information and better target geographic areas. For example, emergency managers will be able to send more informative messages, because the maximum alert length will be expanded from 90 characters to 360. The improved system will help local public safety officials better meet the needs of specific communities. For instance, the system enables local officials to send Spanish-language alerts, and seeks comment on transmitting alerts in additional languages as well as with multimedia content.

Robocalls

In August, the Commission established strong, pro-consumer limits on robocalls to collect federal debt. Specifically, the Commission adopted rules limiting the number of such robocalls, including text messages, to three per month. The new rules also only allow robocalls concerning debts that are delinquent or at imminent risk of delinquency, unless there is prior express consent otherwise. The new rules require that, absent consent, callers only call the individual who owes the debt, not his or her family or friends. This includes limiting the number of robocalls allowed to reassigned numbers, consistent with last year's Omnibus robocall ruling. The new rules reiterate that consumers have the right to stop calls they do not want at any point they wish, and require callers to inform consumers of that right. The new rules place limits on the duration of calls (excluding required disclosures). Specifically, pre-recorded or artificial voice calls cannot exceed 60 seconds and text messages cannot exceed 160 characters.

The new rules also apply to each caller, rather than each debt. Otherwise, consumers who have multiple loans with a single owner of the debt, as many do, could be receiving an excessive number of robocalls per month to their cell phones. In addition, the Commission's rules limit the time of day when robocalls can take place, requiring that no robocalls can may be made before 8 a.m. and after 9 p.m. local time at the called party's location.

These protections are particularly important following a January Supreme Court ruling that federal government entities conducting official business are not subject to robocall limits unless Congress says otherwise. Our decision implements Congress's directive and responds to thousands of comments from consumers expressing frustration with robocalls and urging clear, strong limits on debt collection calls.

Cybersecurity

One of the most important missions of the FCC is to ensure our nation's commercial communications infrastructure supports public safety and national security. The vulnerability of advanced telecommunications networks to physical and cyber-attack is not lost upon us. We have and will continue to work closely with industry and our agency partners to identify, mitigate and where possible reduce cybersecurity risk.

Cybersecurity principles – availability, integrity, and confidentiality – are now routinely incorporated in our engagement with industry. Our advisory committees are doing important work tackling tough cybersecurity issues for current and future networks. Our approach is to have communication providers and their industry partners lead while the FCC brings useful assistance and transparency to ensure that this effort benefits from early peer review.

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 15, 2016

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1. MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Overview of the Federal Communications Commission

Introduction

Revised Office of Management and Budget (OMB) Circular No. A-136, released on October 7, 2016, 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 (FCC or Commission) has chosen to produce the AFR as an alternative to the consolidated Performance and Accountability Report. The FCC will include its Fiscal Year (FY) 2016 APR with its Congressional Budget Justification and will post it on the Commission's website at http://www.fcc.gov/encyclopedia/fcc-strategic-plan as required by the Office of Management and Budget (OMB).

The Commission's AFR includes three sections:

Section 1 consists of Management's Discussion and Analysis (MD&A) that presents an overview of the FCC, including the senior leadership, agency's mission and organizational structure, maps 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.

Section 2 contains Commission's financial information. This section contains the letter from the Acting Chief Financial Officer 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, Commission's response to the independent auditor's reports, consolidated financial statements, notes to the financial statements, and required supplementary information.

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, management's response to such challenges, and a schedule of civil monetary penalties.

About the Federal Communications Commission

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.

In July 2015, the Commission adopted an Order to modernize the Enforcement Bureau's (EB) field operations. The final plan reflects feedback from wireless carriers, public safety entities, and broadcasters. The Order reduces the number of field locations from 24 to 13, consolidates staff in three of the remaining offices into nearby FCC-owned locations, and makes various other management and policy changes, including updating field equipment and requiring all field agents to be electrical engineers. The Commission last modernized EB's field operations approximately 20 years ago. Since then, both communications and investigative technology have changed substantially. Many previously unknown services have become common (e.g., HDTV and LTE), while interference detection equipment has shrunk in size and expanded in capabilities. At the same time, the Commission's budget has decreased or remained flat, leading to increased competition between the field and other Commission priorities, oversized field offices, and excessive layers of field management. It was therefore necessary to reexamine EB's field structure to update it for the challenges of the 21st Century. In FY 2016, we have made strides to implement the Order adopted in FY 2015. The Commission hopes to complete the modernization by the end of the second quarter of FY 2017.

Senior Leadership

Five Commissioners direct the work of the FCC. 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 current 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 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 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** is the primary FCC unit responsible for enforcing the provisions of the Communications Act, the Commission's rules, orders, and various licensing terms and conditions. Enforcement 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** advices, makes recommendations to, or acts for the Commission under delegated authority, in all matters pertaining to public safety, homeland security, national security, emergency management and preparedness, disaster management, and ancillary operations. The Bureau is responsible for developing, recommending, and administering the agency's policies and rules to advance the security and reliability of the nation's communications infrastructure as well as its public safety and emergency response capabilities

- **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 services licenses, and manages the tower registration process. The Bureau also produce an annual assessment of the wireless

[1] 47 U.S.C. § 151.
[2] *Id.*

industry – the Mobile Wireless Competition Report – and manage interactive web tools such as the Spectrum Dashboard, which delivers to the public key information 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 low-income consumers. It works to protect consumers and foster competition, especially for the services that small businesses need, and ensure 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 responsible for conducting the hearings ordered 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, women, and minority-owned communications businesses. It also represent 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 provide leadership to create new opportunities for competitive technologies and services for the American public. It also maintains the U.S. Table of Frequency Allocations, manages the Experimental Licensing and Equipment Authorization programs, regulates the operation of unlicensed devices, and conducts engineering and technical studies.

- **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 computer services; physical space; security; the Commission meeting schedule; and distribution of official FCC documents.

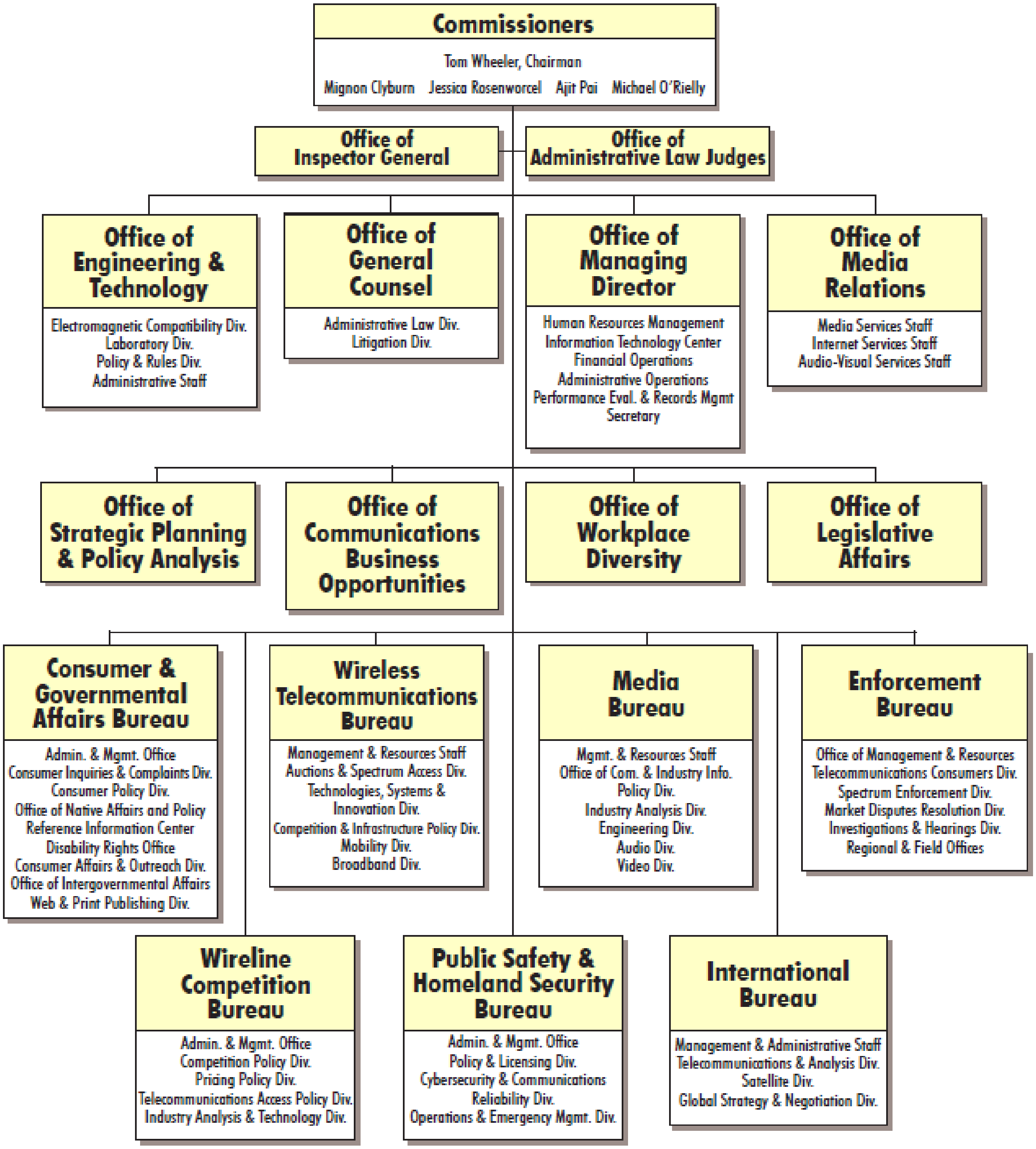
- **The Office of Media Relations** is responsible for disseminating information on Commission issues. It coordinates news media requests for information and interviews on FCC proceedings or activities. The Office also facilitates the release of all Commission announcements, orders, and other information. 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 policy objective. 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 FCC Enforcement Bureau's Field Offices

Strategic Goals and Objectives

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 broadband and 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 four strategic goals. They are:

Strategic Goal 1: Promoting Economic Growth and National Leadership

Vision: *Promote the expansion of competitive telecommunications networks, which are a vital component of technological innovation and economic growth and help to ensure that the U.S. remains a leader in providing its citizens opportunities for economic and educational development.*

Strategic Goal 2: Protecting Public Interest Goals

Vision**:** *The rights of network users and the responsibilities of network providers form a bond that includes consumer protection, competition, universal service, public safety and national security. The FCC must protect and promote this Network Compact.*

Strategic Goal 3: Making Networks Work for Everyone

Vision**:** *In addition to promoting the development of competitive networks, the FCC must also ensure that all Americans can take advantage of the services they provide without artificial impediments.*

Strategic Goal 4: Promoting Operational Excellence

Vision**:** *Make the FCC a model for excellence in government by effectively managing the FCC's resources and 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: https://www.fcc.gov/about/strategic-plans-budget.

Components of the FCC for Financial Statement Purposes

In addition to the activities directly undertaken by the above bureaus and offices, the Commission's 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 2016, the USF accounted for approximately $8,888 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 https://www.fcc.gov/general/universal-service.

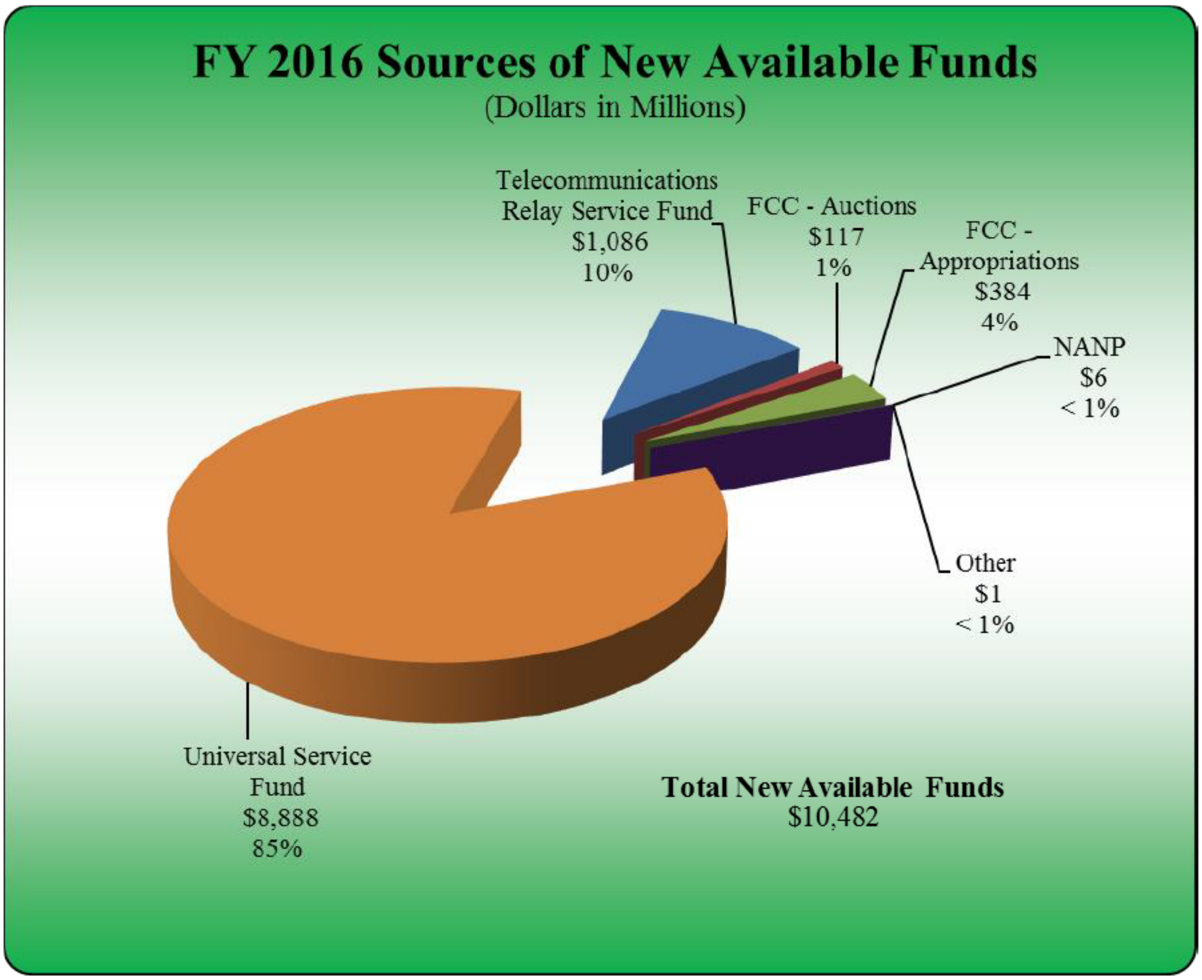
Rolka Loube, LLC (RL) is the administrator for the TRS fund. The TRS Fund compensates TRS providers for the reasonable costs of providing interstate telephone transmission services that enable a person with a hearing or speech disability to communicate with a person without hearing or speech disabilities. The costs of providing interstate TRS are recovered from subscribers of interstate telecommunications services. In FY 2016, TRS accounted for approximately $1,086 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 https://www.fcc.gov/general/telecommunications-relay-services-trs.

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)

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

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 2016, 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 https://www.fcc.gov/general/numbering-resources 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 amount of $384 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 oversees a payment recapture program that includes both audits and transaction testing to search for and recapture overpayments. Section 3 of the AFR provides further details on these efforts.

Performance Highlights

The Commission's four strategic goals serve as guidance directing the actions and performance of the agency. The Commission assesses the achievement of 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, 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 2016. The Commission will include the FY 2018 APR with its Congressional Budget Justification and will post it on the Commission web site at https://www.fcc.gov/encyclopedia/fcc-strategic-plan as required by OMB. In the discussion below, we identify achievements in the Commission's major initiatives during the past fiscal year, organized by Strategic Goals.

PROMOTING ECONOMIC GROWTH AND NATIONAL LEADERSHIP

Promote the expansion of competitive telecommunications networks, which are a vital component of technological innovation and economic growth and help to ensure that the U.S. remains a leader in providing its citizens opportunities for economic and educational development.

The Commission is in the midst of a historic incentive auction to make available low-band spectrum by repurposing a portion of the broadcast television band for wireless use. The auction's design allows for multiple stages of bidding in order to match the supply of spectrum from broadcasters with the demand expressed by wireless bidders. In the first stage of the auction the Commission made available an initial clearing target of 126 MHz, but the cost to clear that amount of broadcast spectrum exceeded the bid prices of the wireless bidders. A second stage was begun on September 13 with a reverse auction to determine the cost to clear a reduced amount - 114 MHz - of spectrum. A forward auction involving wireless carriers will follow the conclusion of this second stage.

The FCC also continues to plan for the post-auction transition. The Incentive Auction Task Force will soon release for discussion and comment transition models to calculate the order and schedule of station relocation efforts. These models reflect input received from broadcasters, wireless companies, tower crews, equipment manufacturers, and other stakeholders.

The Commission updated its rules to help ensure that consumers, industry and the economy reap the benefits of ongoing, innovative technology transitions. They eliminated outdated, unnecessary regulations and established clear criteria that can expedite the review process required when providers update service from legacy to modern voice technologies. The new framework gives carriers the clarity they need to transition quickly to innovative services and at the same time ensure continued protections for consumers, competition, public safety and universal service, all important values that must endure even as technology changes.

New rules were adopted for wireless broadband operations in frequencies above 24 GHz, making the United States the first country in the world to make this spectrum available for next generation wireless services. Building on the successful, flexible approach to spectrum policy that enabled the explosion of 4G (LTE), these rules set a strong foundation for the rapid advancement to next-generation 5G networks and technologies in the United States.

The Commission adopted rules that require submarine cable licensees to report significant outages to the FCC to help safeguard this critical communications infrastructure and promote reliable communications for businesses and consumers. Submarine cables are vital to America's economic and national security, yet in the past licensees have only reported outages to the FCC on a voluntary and inconsistent basis. When the FCC has received information on outages, it has been too limited to be of use. The new outage reporting rules will enable the FCC to monitor the operational status of submarine cables and assist the agency in ensuring the reliability of this communications infrastructure.

The International Bureau removed Cuba from the Commission's Exclusion List for International Section 214 Authorizations. The Exclusion List identifies countries and facilities that are not covered by grant of a global facilities-based Section 214 application and require a separate international Section 214 authorization. By removing Cuba from the Exclusion list, the Commission opens the door for U.S. telecommunication carriers to provide facilities-based telephone and Internet service to Cuba without separate approval from the Commission.

The FCC adopted several measures to help low power television (LPTV) and TV translator stations to continue serving their viewers following the incentive auction. The Spectrum Act of 2012 requires the Commission to protect only full power and Class A TV stations when reorganizing the TV band after the auction. Recognizing the important role that LPTV and translator stations play in the communities they serve, the Commission took several steps to help these stations preserve the important programming content they provide. The Commission's actions included permitting channel-sharing, extending the deadline for digital transition for these stations, and offering software assistance in finding new channels.

The Commission adopted rules to comprehensively simplify and streamline the regulatory approval process for satellite licenses under Part 25 of the FCC's rules. This rulemaking is one of the key reforms under the Commission's process reform initiative. The new rules increase satellite operational flexibility, eliminate unnecessary filing requirements, and better accommodate evolving technology. The changes will significantly reduce regulatory burdens and costs.

Moving to eliminate regulatory burdens that can stifle investment while maintaining protections for consumers and competition, the Commission voted to no longer enforce multiple dated rules governing legacy local phone companies, known as incumbent local exchange carriers. The FCC granted full or partial forbearance from most of the categories of rules covered by a petition for forbearance filed by U.S. Telecom, an industry trade association. A number of these rules were pre-conditions to the ability of the former "Baby Bell" telephone companies to offer long distance telephone service, a process that was completed over a decade ago. With the long distance service market very different today than it was then, these rules generally no longer are necessary to protect consumers or competition. However, the FCC maintained rules still needed to ensure that consumers in rural areas and low-income consumers have access to affordable phone service, and it preserved rules that continue to protect competition in the market for telecommunications services to businesses and other enterprises.

PROTECTING PUBLIC INTEREST GOALS

The rights of network users and the responsibilities of network providers form a bond that includes consumer protection, competition, universal service, public safety and national security. The FCC must protect and promote this Network Compact.

The FCC adopted rules to extend to broadcast licensees the same streamlined rules and procedures that common carrier wireless licensees use to seek approval for foreign ownership, with appropriate broadcast-specific modifications. The FCC also reformed the methodology for publicly traded broadcast and common carrier licensees and controlling U.S. parent companies to assess compliance with the statutory foreign ownership limits. Adopting a standardized filing and review process for broadcast licensees' requests for approval of foreign ownership will provide the broadcast sector with a clearer path for investment.

The Commission issued a Notice of Proposed Rulemaking (NPRM) to foster consumer choice and access to diverse programming on television. The proposed rules may prohibit the use of certain clauses in pay TV programming distribution contracts that impede carriage of independent and diverse programming. The proposed rules are a result of the input received from an inquiry the FCC opened earlier this year into the state of diversity in the video programming market. The Commission held two workshops on the issue to examine the state of the video marketplace, challenges faced by distributors of video programming, and marketplace obstacles that affect the provision of independent and diverse programming to consumers.

In order to strengthen the Emergency Alert System (EAS), the national public warning system through which broadcasters, cable television providers, and other participants deliver emergency information, such as weather alerts, the FCC proposed rules to facilitate involvement on the state and local levels, support greater testing and awareness of the system, leverage technological advances, and enhance security. The NPRM aimed to promote community preparedness and ensure that the public receives the most effective alerts during emergencies.

The Commission also updated its rules so that Americans receive more specific, and potentially life-saving, warnings through the EAS before extreme weather strikes. The amended rules add three new "event codes" that can be used to warn the public about the storm surges and extreme winds that may accompany hurricanes and other severe weather events.

The FCC, in coordination with the Federal Emergency Management Agency, conducted a mandatory nationwide test of the EAS September 28th. The purpose of the test was to ensure that EAS remains an effective means of warning the public about emergencies. Periodic testing of public alert and warning systems helps to assess the operational readiness of alerting infrastructure and identify any needed technological and administrative improvements.

Rules were adopted to update and strengthen Wireless Emergency Alerts (WEA), a system that delivers critical warnings and information to Americans on their wireless phones. The updated rules are intended to promote the wider use and effectiveness of this lifesaving service, especially for state and local authorities to convey important information to their communities. The Commission took action to improve WEA message content, help ensure that the messages reach only those people for whom an alert is relevant, and establish a WEA testing program that will improve the effectiveness of the system for public safety officials and the public.

The FCC and the Federal Trade Commission (FTC) are working together to better understand, and ultimately to improve, the security of mobile devices. The Wireless Telecommunications Bureau sent a letter to mobile carriers asking questions about their processes for reviewing and releasing security updates for mobile devices. At the same time, the FTC ordered eight mobile device manufacturers to provide the agency with information about how they issue security updates to address vulnerabilities in smartphones, tablets, and other mobile devices. As consumers and businesses turn to mobile broadband to conduct more of their daily activities, the safety of their communications and other personal information is directly related to the security of the devices they use. Consumers may be left unprotected, for long periods of time or even indefinitely, by any delays in patching vulnerabilities once they are discovered.

The FCC and the FTC also signed a Memorandum of Understanding to further the agencies' ongoing cooperation on consumer protection matters. The memorandum is designed to formalize the existing cooperation between the agencies, outlining methods by which the agencies will coordinate and share information. In addition, the memorandum recognizes the two agencies' complementary authorities with regard to practices by common carriers. The agencies have followed a similar memorandum of understanding related to telemarketing enforcement issues since 2003.

The Commission has taken strong action to crack down on robocalls. Loopholes in the Telephone Consumer Protection Act were closed, ensuring that robocallers face stiff consequences when they make unwanted calls and send unwanted texts. The Commission also imposed strong consumer protections on specific debt collection robocalls. Chairman Wheeler sent letters to major wireless and wireline telephone carriers, as well as the major gateway providers that sometimes transmit calls between other carriers, to say that consumers can no longer wait for additional tools to stop robocalls. He called on them to offer robust call blocking to their customers, free of charge. Industry responded aggressively by establishing the Robocall Strike Force, which includes representatives from telecommunications carriers, device manufacturers, operating system vendors, app developers, and other segments of the industry.

The FCC began releasing robocall and telemarketing consumer complaint data weekly to help developers build and improve “do-not-disturb” technologies that allow consumers to block or filter unwanted calls and texts. The data, including originating phone numbers of telemarketers and automated robocalls, is available on the FCC Consumer Help Center’s website.

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:

- A $450,000 settlement with a major wireless carrier to resolve an investigation into whether the carrier operated fixed wireless stations without authorization or without filing required license modification notices.

- A corporation agreed to pay $175,000 to resolve an investigation into whether the company failed to disclose corporate felony convictions as required by the Commission’s rules. The company and some of their subsidiaries hold numerous FCC wireless licenses and were required to disclose prior criminal convictions for violations of the Foreign Corrupt Practices Act and, separately, obstruction of justice on their applications.

- A fine of $11 million against three related long distance carriers for “cramming” unauthorized charges onto consumer telephone bills, “slamming” consumers by switching their preferred phone carriers without authorization, deceptive marketing, and violating the FCC’s truth-in-billing rules.

- A foreign railroad company will pay $1,210,000 to resolve an investigation of the railroad company’s operation of more than a hundred wireless radio facilities in the U.S. without prior FCC approval, and for failing to obtain FCC authorizations for the transfer of control of thirty wireless radio licenses.

- A settlement to resolve an investigation into whether a carrier “crammed” unauthorized third-party charges on its customers’ wireline telephone bills. The company allowed scammers to charge customers approximately $9 per month for a sham directory assistance service. Under the terms of the settlement, the company will issue refunds totaling $6.8 million to current and former consumers and will pay a $950,000 fine.

- Proposing to fine two New York-area men $25,000 each for apparently using false caller ID numbers to carry out harassing phones calls to the ex-wife of one of the men.

- Reaching a $200,000 settlement with a manufacturer resolving an investigation into certain Wi-Fi routers that were not in compliance with Commission rules pertaining to power levels. As part of the settlement, the company agreed to adopt robust compliance measures to ensure that its existing and future Wi-Fi routers are in compliance.

- A broadcast ownership group will pay $9,495,000 to resolve a number of Media Bureau investigations, including the Bureau's investigation of allegations that the group violated its obligation to negotiate for retransmission consent in good faith.

- Reaching a $2.4 million settlement resolving an investigation into five 911 service outages that occurred on a company's wireless network in various parts of Alaska between August 2008 and April 2016.

- A carrier and its parent company will pay $1.1 million to resolve an investigation that they repeatedly exceeded foreign ownership levels approved by the Commission.

- A provider of long-distance and other services will pay a $100,000 civil penalty to resolve an investigation into whether the company failed to complete long distance telephone calls to a consumer in rural Minnesota.

- Fined a Florida-based long distance carrier $1.6 million for billing consumers for unauthorized charges and fees.

- A settlement resolving an investigation into a major carrier's practice of inserting unique identifier headers or so-called "supercookies" into its customers' mobile Internet traffic without their knowledge or consent.

- Fined two related companies and their owner more than $3.4 million for billing consumers for services that were not requested.

- Proposed a $29,600,000 fine against four related long distance carriers for a variety of apparent deceptive practices targeting consumers with Hispanic surnames, switching their long distance carriers without authorization and adding unauthorized charges onto consumers' bills.

- Reached a $540,000 settlement with a media company regarding a lack of sponsorship identification in radio advertising promoting a proposed energy project. This is the largest payment in FCC history for a single-station violation of the Commission's sponsorship identification laws.

- Fined a long distance carrier $1.44 million for switching customers' long distance carriers without proper authorization.

- Entered into a $595,000 settlement with a cable provider to resolve an investigation into whether the company failed to properly protect its customers' personal information when the company's electronic data systems were breached.

- Planned a $718,000 fine against an electrical contractor for blocking consumers' Wi-Fi connections at an event at a convention center, forcing participants to pay substantial fees to use the contractor's Wi-Fi service.

- Fined six companies a combined $30 million for deceptively marketing prepaid calling cards.

MAKING NETWORKS WORK FOR EVERYONE

In addition to promoting the development of competitive networks, the FCC must also ensure that all Americans can take advantage of the services they provide without artificial impediments.

The Commission announced new broadband labels to provide consumers of mobile and fixed broadband Internet service with easy-to-understand information about price and performance. These labels will help consumers make informed decisions about the purchase of broadband service.

The FCC's Connect2Health Task Force launched the *Mapping Broadband Health in America* tool (available at www.fcc.gov/health/maps), a web-based mapping tool that will enable and inform more efficient, data-driven decision making at the intersection of broadband and health. By allowing users to ask and answer questions about broadband and health at the county and census block levels, the tool provides critical data that can help drive broadband health policies and connected health solutions. The mapping tool shows various aspects of connectivity and health for every state and county in the United States. Users can generate customized maps that display broadband access, adoption and speed data alongside various health measures (e.g., obesity, diabetes, disabilities and physician access) in urban and rural areas. These maps can be used by both public and private sectors and local communities to identify not only gaps, but also opportunities.

The Commission released the results of its ongoing nationwide performance study of consumers' fixed broadband Internet access service in its fifth "Measuring Broadband America" report. The report furthers the Commission's efforts to provide greater transparency about network performance to help consumers make more informed choices about broadband services. This year's report shows that broadband speed offerings to the average consumer continue to increase at a rapid pace, and broadband service providers generally are delivering actual speeds that meet or exceed advertised speeds. However, results are not uniform across technologies. The report finds a growing disparity in advertised download speeds between many DSL-based broadband services and most cable- and fiber-based broadband services.

While the nation has made significant progress in broadband deployment, 34 million Americans still lack access to broadband meeting today's benchmark speeds of 25 megabits per second (Mpbs) for downloads and 3 Mbps for uploads, according to the FCC's 2016 Broadband Progress Report. The report also finds that a persistent digital divide has left approximately 40 percent of the people living in rural areas and on Tribal Lands without access to service at the FCC's speed benchmark. In addition, while connectivity for schools has greatly improved since the FCC began modernizing its E-rate program, 41 percent of schools have not yet met the FCC's short-term goals for connectivity capable of supporting digital learning applications. For these reasons, the 2016 report concludes that broadband is not being deployed to all Americans in a reasonable and timely fashion.

The Commission modernized and reformed its Lifeline program to help low income consumers afford access to the 21st Century's vital communications network: the Internet. Since 1985, Lifeline has helped make telephone service affordable for low-income Americans. Today, consumers need Internet access for full and meaningful participation in society. Yet 43 percent of the nation's poorest households say they can't afford modern broadband service. To help close this digital divide, the Commission refocused Lifeline support on broadband, which will enable low-income Americans to share in the 21st Century opportunities that access to the Internet provides. At the same time new rules build on recent reforms in the program to combat waste, fraud and abuse and increase program efficiency.

Acting to ensure that rates for phone calls are just, reasonable and fair for all Americans, the FCC took further steps to rein in the excessive rates and egregious fees on phone calls paid by some of society's most vulnerable: people trying to stay in touch with loved ones serving time in jail or prison. With the cost of a call sometimes ballooning to $14 per minute once inside prison walls, the FCC for the first time capped rates for local and in-state long-distance inmate calling, and cut its existing cap on interstate long-distance calls by up to 50 percent.

The Commission took major steps to ensure greater access to wireless communications services and handset devices for tens of millions of Americans with hearing loss. New rules reflect a consensus-driven approach to foster accessibility for individuals who are deaf and hard of hearing while promoting innovation and investment by the wireless industry. The new rules expand the scope of the hearing aid compatibility regulations to cover the wireless technologies of today and tomorrow. Recognizing that wireless voice communications increasingly operate via alternative technologies, the Commission has expanded the rules to cover IP-based communications services like Wi-Fi Calling and Voice-over-LTE. In addition, the new rules will require that future technologies comply with current and future hearing aid compatibility rules, encouraging manufacturers to consider hearing aid compatibility at the earliest stages of the product design process, ensuring that consumers with hearing loss are not always trying to catch up to technology and providing industry with additional regulatory certainty.

The FCC's Enforcement Bureau undertook several investigations concerning Universal Service Fund reimbursements. Results of these investigations included:

- An $11.9 million fine against a company for improperly billing the Telecommunications Relay Service (TRS) Fund, which enables persons with speech or hearing disabilities to make and receive phone calls. The company sought and received millions in reimbursements from the TRS Fund and failed to reasonably verify over 40,000 "users" with obviously false names.

- Reached a settlement with a state Department of Education (DOE) resolving an investigation into whether the school system violated the competitive bidding rules of the FCC's E-rate program, which subsidizes telecommunications, Internet access and Wi-Fi services for schools and libraries. The state DOE will pay $3 million under the terms of the settlement agreement.

- Planned to fine a company more than $51 million apparently enrolling tens of thousands of duplicate and ineligible consumers into the Lifeline program. This is the largest fine the FCC has proposed against a Lifeline provider.

- Reached a settlement with a wireless carrier to resolve an investigation into whether the company improperly enrolled several thousand customers as eligible for enhanced Tribal support reimbursements from the FCC's Lifeline program. Under the settlement, the company will reimburse the Universal Service Fund approximately $2 million and adopt substantial compliance procedures.

PROMOTING OPERATIONAL EXCELLENCE

Make the FCC a model for excellence in government by effectively managing the FCC's resources and maintaining a commitment to transparent and responsive processes that encourage public involvement and best serve the public interest.

The Commission adopted rules to require cable operators, satellite television providers, and broadcast radio and satellite radio licensees to post their public and political files to the FCC's online public inspection file database. The Commission adopted online public file rules for broadcast television licensees in 2012, moving television public files online to a central, Commission-hosted database rather than maintaining files locally at their main studios. TV broadcasters completed their transition to the online file in July 2014. Modernizing the filing process made it easier for consumers to access information about their broadcast services without having to travel to the station's main studio and reduced the cost of broadcaster compliance. The new rules extend the online file to these additional entities and include a number of measures to minimize the effort and cost associated with moving the public files online.

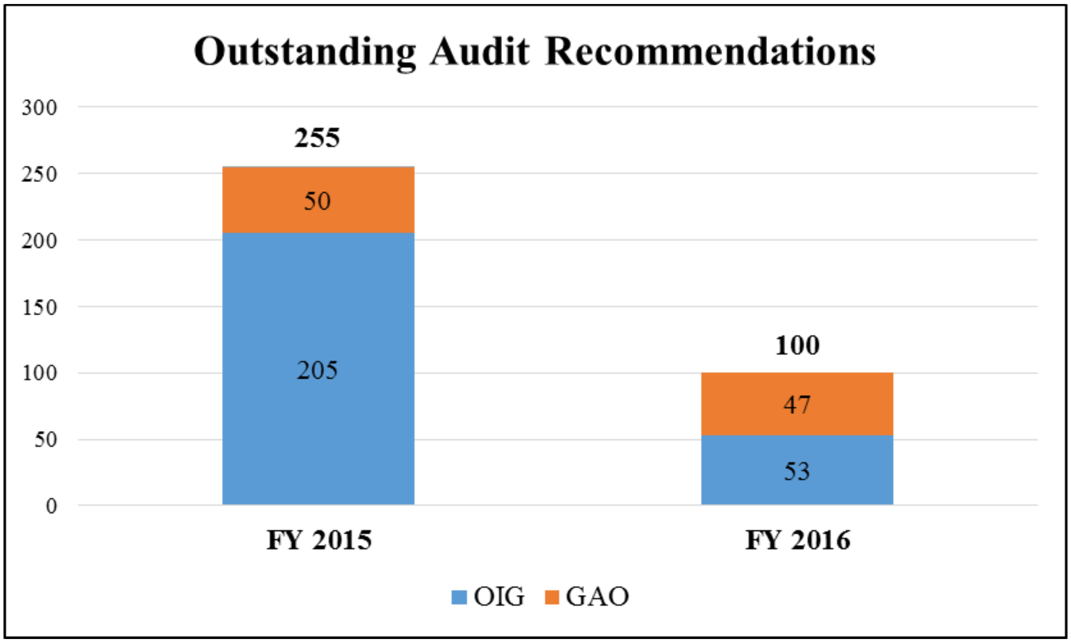
The FCC launched its new online Consumer Complaint Data Center to provide greater transparency into consumer complaints received by the Commission. This online platform will provide the public with more information about consumer complaints and tools to customize how they view the data. Informal complaints submitted to the FCC are added to the database, which is updated on a daily basis. The database includes the service the consumer is complaining about (phone, TV, Internet, radio, emergency, or accessibility), the method by which the consumer receives the service (such as wireless or VoIP phone), the issue the consumer is complaining about and the consumer's general location information. Consumer complaints are an essential resource for the agency's work. Such complaints can be used to inform policy decisions by the Commission, allow companies to facilitate resolutions to specific problems raised, and can be used by the Enforcement Bureau to track trends and enforce the Commission's rules. In addition, raw data sets help stakeholders track consumer sentiment and provide useful analysis to the public.

Maps and geospatial analysis allow the FCC to display information to the public in an interactive visual format. FCC maps have become useful tools for conveying data in conjunction with Commission reports and public notices. The FCC's maps site serves as a centralized hub for data visualizations and is one of the most highly trafficked parts of the Commission's website. Fifteen maps have been published this year, bringing the total number of maps to 53 since the launch of the original FCC maps site. These maps represent topics ranging from nationwide LTE coverage to fixed broadband deployment data. To keep pace with the demand for more and improved data visualization tools, the FCC has been working to update its maps site to streamline the publishing process and increase the public's access to the maps published by the Commission. We developed geospatial visualization design standards to maintain a consistent user experience across our maps and geospatial applications.

The FCC launched its new website featuring a more responsive design, a new site navigation structure, and an improved search capability. Extensive user research revealed visitors to FCC.gov prefer a clear separation of consumer content and practitioner content. Therefore the new site navigation features a toggle capability that allows visitors to browse by subject category or FCC bureaus and offices. The design of the site has been upgraded to a more modern look-and-feel that is responsive to the device you are using. This means that the display will adjust depending on whether you are using a mobile device, tablet or computer. The new site features a new search application. The new search brings together results from both FCC.gov and the Electronic Document Management System (EDOCS) into a seamless search experience. The user interface also allows for visitors to search only within FCC.gov and EDOCS and provides an array of facets to help further refine search results.

Overall Status of Audit Recommendations

The chart below shows the number of audit recommendations outstanding from various audits conducted by FCC's Office of Inspector General (OIG) and the Government Accountability Office (GAO). The Commission reduced its total number of outstanding recommendations by 61 percent from September 30, 2015 to September 30, 2016.



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 consolidated financial statements in FY 2014 and FY 2015. In conjunction with both of these opinions, the independent auditors provided the Commission with reports on internal control and compliance with laws and regulations. In FY 2014 and FY 2015, the independent auditors' reports identified one material weakness in internal controls related to budgetary accounting procedures at the Universal Service Administrative Company (USAC) for the Universal Service Fund (USF). In the FY 2014 and FY 2015 reports the independent auditors also included significant deficiencies in the area of Information Technology Controls and an instance of noncompliance with the Debt Collection Improvement Act (DCIA).

During FY 2016, the FCC worked to develop corrective action plans and to remediate the recommendations associated with these findings. In its report for FY 2016, the independent auditors downgraded the one, prior year material weakness in internal controls related to budgetary accounting procedures at USAC for the USF to a significant deficiency as evidence of the progress made by the Commission in FY 2016. However, additional work remains at USAC to strengthen internal controls and processes at USAC. In FY 2017, the FCC will continue to work with USAC to ensure that internal controls and processes surrounding the reporting of budgetary accounting activities 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 throughout FY 2016. The Commission will make every effort in FY 2017 to complete and implement corrective actions for each of the recommendations associated with these findings to avoid any repeat findings in this area.

In FY 2016, the Commission was successful in resolving the finding related to noncompliance with the DCIA. However, the independent auditors found a new internal control weakness related to early recognition of non-exchange revenue. In FY 2017, the Commission will enhance its internal controls related to recognition of non-exchange revenue to fully remedy this new finding.

During FY 2016, 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. In FY 2016, the FCC used an entity level assessment tool and a 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 office of 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. Furthermore, the Commission's Senior Management Council continues to serve as a means to integrate internal control assessment processes into the operations of its Bureaus and Offices. While the Commission has received unmodified opinions over its consolidated financial statements each year for some time now, 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 is working very hard to make the first ever incentive auction a success. The incentive auction includes a reverse auction (Auction 1001), in which the television (TV) broadcasters will offer to voluntarily relinquish some or all of their spectrum usage rights, and a forward auction (Auction 1002), of new, flexible-use licenses suitable for providing mobile broadband services. With key FCC documents establishing the rules and policies for the auction, the incentive auction kicked off in March 2016. As of September 30, 2016, the incentive auction was in the middle of Stage 2 of the reverse auction. The Commission is working diligently to make the post-incentive auction work successful as well. More information concerning the incentive auction (Auction 1000) can be found at: https://www.fcc.gov/wireless/auction-1000.

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 2016, 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 2016, the Commission continued to work diligently to close out audit findings from previous audits as well. The Commission was able to close out 160 audit findings in FY 2016; in conjunction with these efforts, the Commission continues to tighten its controls over operations and improve its policies and procedures where necessary.

As evidence of the progress made by the Commission in FY 2016, the independent auditors downgraded the one, prior year material weakness in internal controls related to budgetary accounting procedures at USAC for the USF to a significant deficiency in this year's audit report. Despite this success in FY 2016, the auditors identified a new significant deficiency related to early recognition of non-exchange revenue. The accounting issues noted by the auditors have been corrected by USAC and the FCC and do not affect the Commission's FY 2016 financial statements. However, the auditors recommended that USAC and the

FCC make corrections to their processes and internal controls to avoid these types of errors from recurring in the future.

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 2016, 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 upgrades to its core financial system. The Commission is planning another upgrade to its financial management systems in FY 2017. 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 reasonable assurance that its internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2016, were operating effectively and no material weaknesses were found in the design or operation of internal controls. In addition, the Commission can provide reasonable assurance that its financial management systems meet the objectives of FMFIA.

Tom Wheeler
Chairman
November 15, 2016

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.

The financial management system continues to support the accounting for auctions program at the FCC, including the activities under the Middle Class Tax Relief and Job Creation Act of 2012, which provides for the reorganization of the broadcast television spectrum in conjunction with an incentive auction in which television licensees voluntarily relinquish spectrum usage rights ("reverse auction") in exchange for a share of the proceeds from the sale of repurposed spectrum to wireless providers ("forward auction"). Additional financial systems support includes accounting for the reimbursements that will be made from the $1.75 billion TV Broadcaster Relocation Fund for costs incurred by eligible entities in order to continue to carry the signals of stations relocating to a new channel as a result of the repacking process or a winning reverse auction bid.

The Genesis financial management system supports green and efficiency initiatives 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. The result of these modernization initiatives have facilitated a continued reduction in FTEs for contract support. The ten-year firm-fixed price contract for the current financial management system expires in September of 2018. The FCC continues the planning and coordination process for the future procurement of financial management system services.

The FCC completed the financial management system upgrade initiative in FY 2016 for the Commission wide 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 GSA travel program foundation by improving usability, reliability, accessibility, performance, account management, managerial reporting and security for the FCC travel user community.

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.

As part of the Commission's recent process reform efforts, the financial operations team looked for ways to improve its payment systems to be more efficient and to eliminate any legacy processes that were still paper-based. More specifically, the Commission updated the Fee Filer system to allow entities, who wish to file formal complaints with the Enforcement Bureau, to pay the associated fees online; this update greatly improved the process, which was formerly paper-based. Furthermore, the Commission expanded its use of the Fee Filer system to collect annual regulatory fees for two new categories: Toll Free Numbers and Direct Broadcast Satellite (DBS). In addition to these improvements in the Fee Filer system, the financial operations team made other improvements to the financial systems which include:

- Adaption of the Commission Registration System (CORES) to integrate with OKTA, the Commission's identity and access management system;
- Changes to CORES that are designed to strengthen the security of records, improve the usability of the system, and improve the Commission compliance with various statutes that govern debt collection and the collection of personal information. These changes include:
    - Designating FCC Usernames to access FCC Registration Numbers (FRNs) and related records,
    - Allowing multiple Usernames for each FRN with different levels of access,
    - Requiring a valid email address for online access to the system,
    - Establishing password-recovery security questions specific to each user, and
    - Allowing users to view red light status and payment history across all FRNs to which they have access.

In addition to the successes from the Commission's process reform efforts, the financial operations team is proactively finding ways to improve its financial management 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's 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 eleven 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 October 7, 2016.

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 2016 and FY 2015 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 2016
Consolidated
(Dollars in Thousands)

Net Financial Condition		FY 2016		FY 2015		Increase (Decrease)	Percentage Change in Financial Position
Intragovernmental							
Fund Balance with Treasury	$	3,568,793	$	11,659,650	$	(8,090,857)	-69%
Investments		8,022,992		8,136,062		(113,070)	-1%
Accounts Receivable		506		21,152		(20,646)	-98%
Other		3,740		3,719		21	1%
Total Intragovernmental	$	11,596,031	$	19,820,583	$	(8,224,552)	-41%
Cash and Other Monetary Assets	$	9,095,208	$	131,796	$	8,963,412	6801%
Accounts Receivable, net		927,444		4,184,884		(3,257,440)	-78%
Direct Loans Receivable, net		-		3,234		(3,234)	-100%
General Property & Equipment, net		48,426		28,658		19,768	69%
Other		13,024		13,024		-	-
Total Assets	**$**	**21,680,133**	**$**	**24,182,179**	$	(2,502,046)	-10%
Intragovernmental							
Accounts Payable	$	676	$	548	$	128	23%
Custodial		3,033,683		540,289		2,493,394	461%
Other		4,782		8,477		(3,695)	-44%
Total Intragovernmental	$	3,039,141	$	549,314	$	2,489,827	453%
Accounts Payable	$	199,051	$	230,818	$	(31,767)	-14%
Federal Employee and Veteran Benefits		2,838		-		2,838	-
Deferred Revenue		360,718		14,314,772		(13,954,054)	-97%
Prepaid Contributions		53,390		48,290		5,100	11%
Accrued Liabilities for Universal Service		549,167		557,796		(8,629)	-2%
Deposit/Unapplied Liability		8,949,194		-		8,949,194	-
Other		29,464		32,142		(2,678)	-8%
Total Liabilities	**$**	**13,182,963**	**$**	**15,733,132**	$	(2,550,169)	-16%
Unexpended Appropriations - All Other Funds	$	2,832	$	2,868	$	(36)	-1%
Cumulative Results of Operations - Funds from Dedicated Collections		8,279,799		8,280,330		(531)	<-1%
Cumulative Results of Operations - All Other Funds		214,539		165,849		48,690	29%
Total Net Position	**$**	**8,497,170**	**$**	**8,449,047**	$	48,123	1%
Net Cost of Operations	**$**	**9,876,621**	**$**	**9,170,190**	$	706,431	8%
Total Budgetary Resources	**$**	**7,518,952**	**$**	**14,608,968**	$	(7,090,016)	-49%

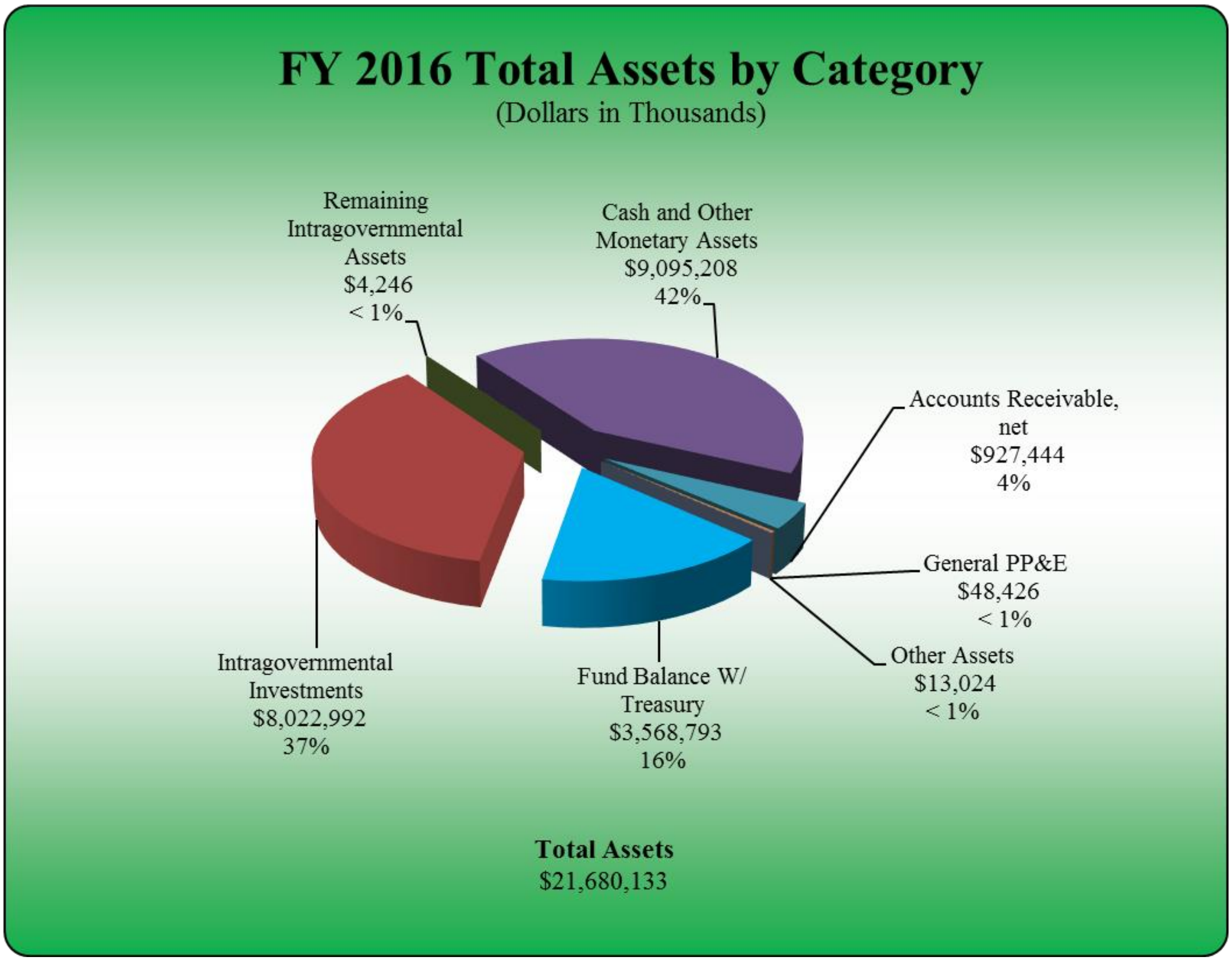
The following is a brief description of the nature of each required financial statement and its relevance, including a description of certain significant balances on Commission operations.

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). Cash and Other Monetary Assets and Investments represent over 79 percent of total assets as of September 30, 2016.

The graph below presents the total assets of the Commission as of September 30, 2016. The large Cash and Other Monetary Assets balance mainly results from on-going spectrum auction activities.

The large Intragovernmental Investment balance of $8,023 million mainly results from carryover in the USF School and Libraries Program and funds reserved for the High Cost support mechanisms.

The Accounts Receivable balance of $927 million is primarily composed of USF receivables totaling $865 million.

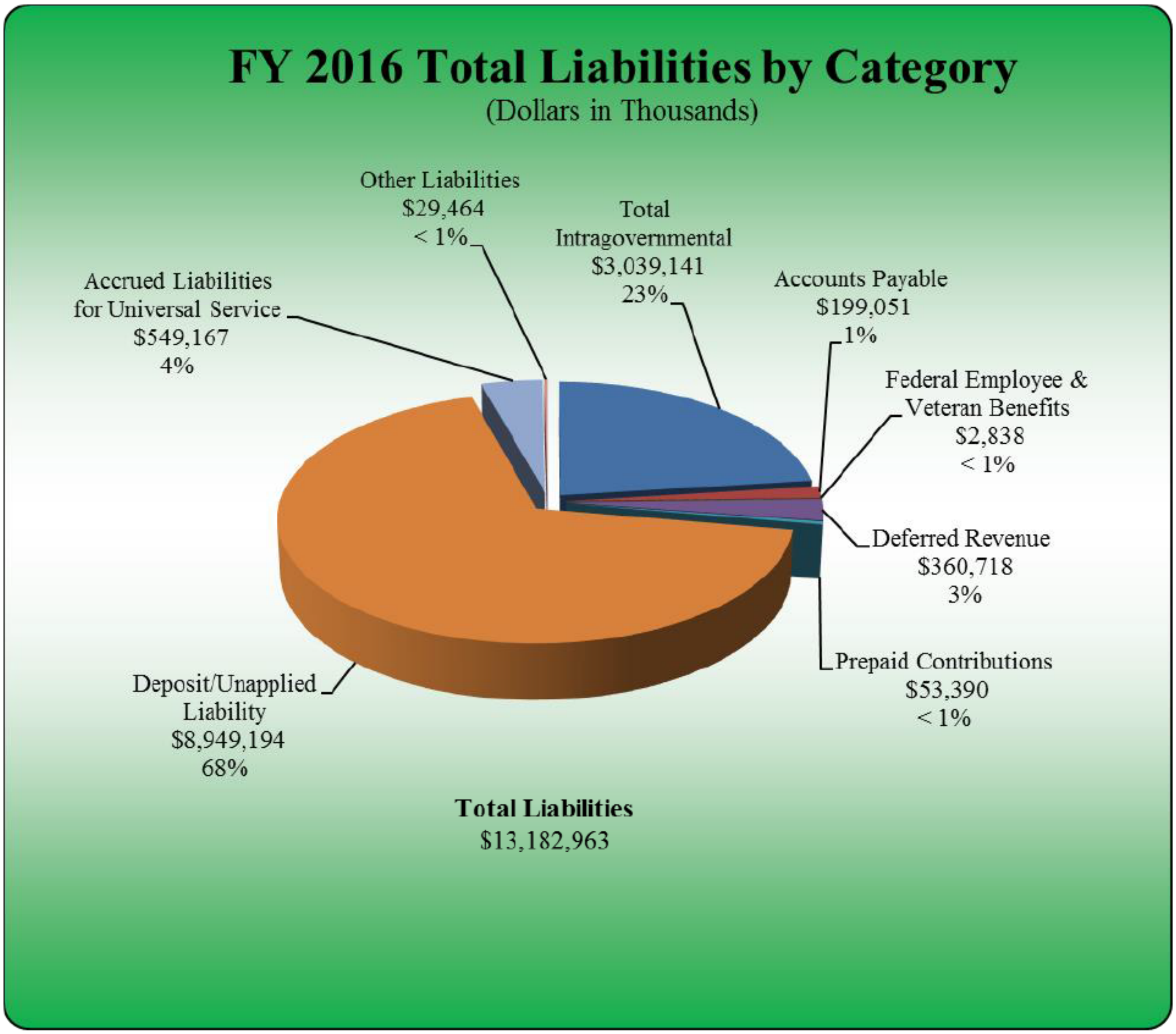


The graph below presents the total liabilities of the Commission as of September 30, 2016. The Commission's most significant liabilities are Deposit/Unapplied Liability of $8,949 million, and Total Intragovernmental of $3,039 million which alone accounted for over 91 percent of total liabilities as of September 30, 2016.

The large Deposit/Unapplied Liability balance is mainly due to on-going spectrum auction activities.

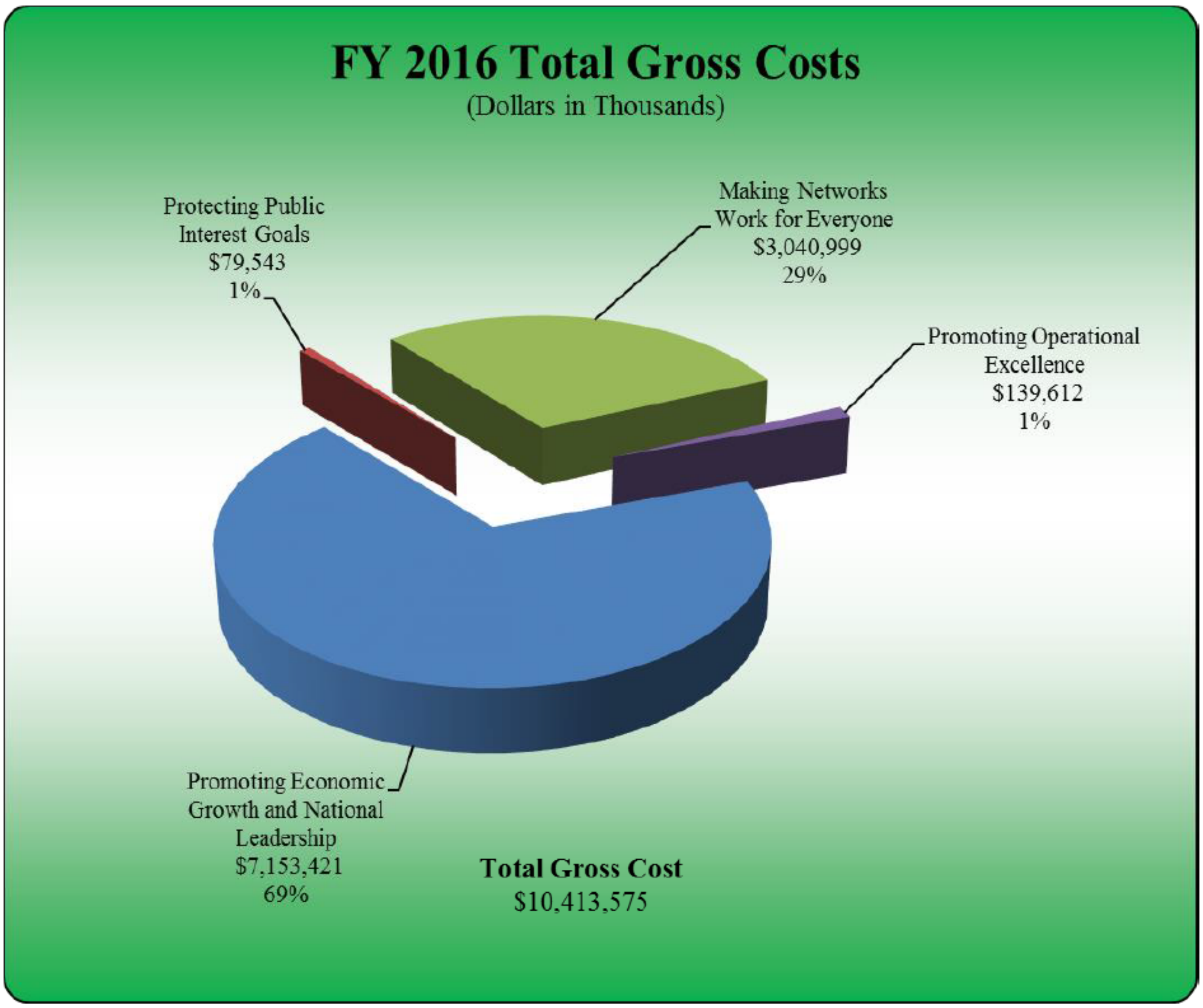
Total Intragovernmental is primarily composed of custodial collections earned on spectrum auctions and miscellaneous receipts.

The Accrued Liabilities for Universal Service represent the expected October (FY 2017) payments for the Telecommunications Relay Service Program and the Universal Service Fund High Cost and Lifeline Programs.



Consolidated Statement of Net Cost: This statement presents the annual cost of operating the Commission's programs. The Consolidated Statement of Net Cost is aligned with the four strategic goals of the Commission: Promoting Economic Growth and National Leadership; Protecting Public Interest Goals; Making Networks Work for Everyone; and Promoting 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 Promoting Economic Growth and National Leadership and Making Networks Work for Everyone, and the program costs for the TRS and NANP are allocated to the strategic goal Promoting Economic Growth and National Leadership. 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.

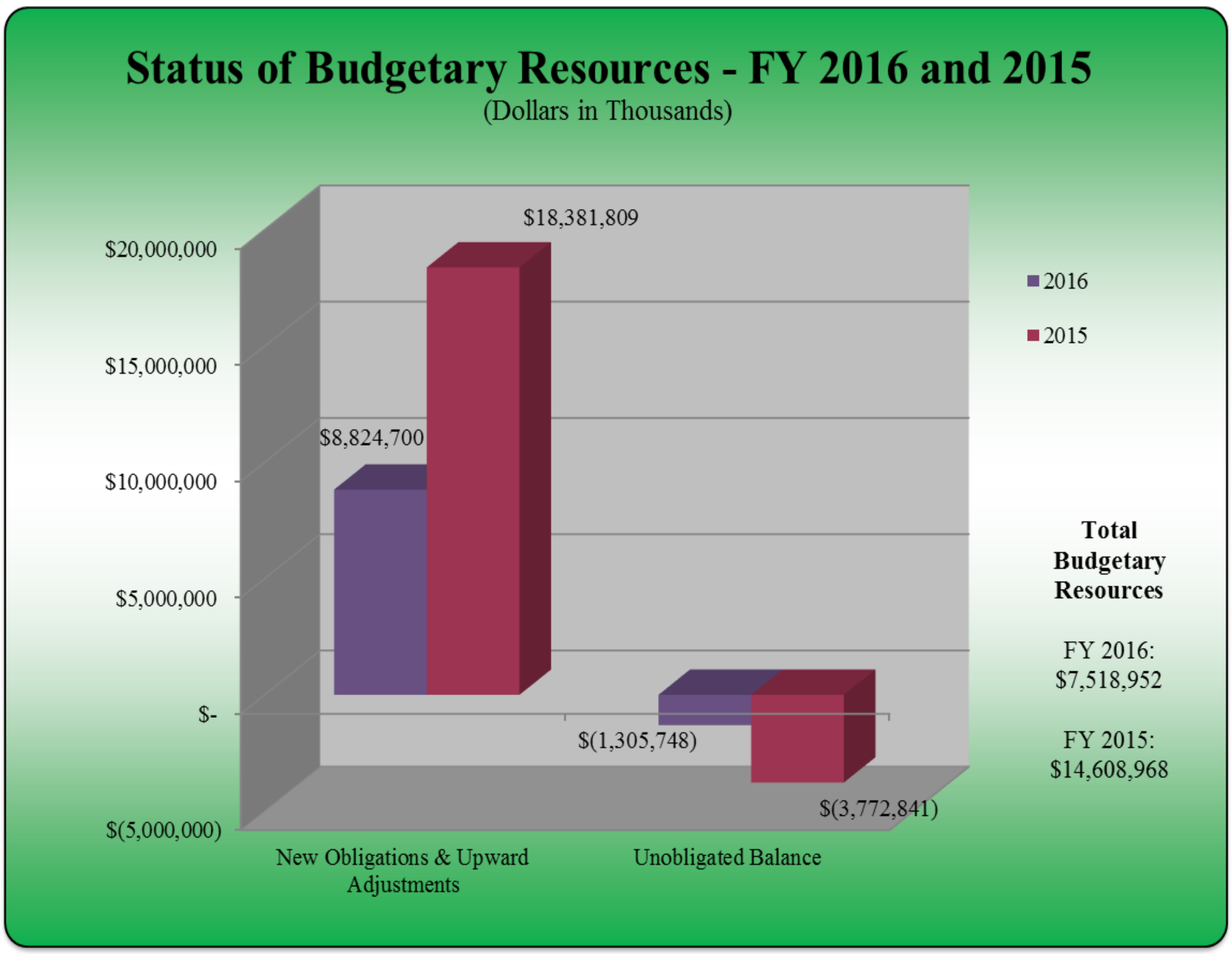
The graph below presents the total gross costs of each Commission program.



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 2016, the Commission's Net Position increased $48 million or less than 1 percent to $8,497 million compared to the net position of $8,449 million for FY 2015.

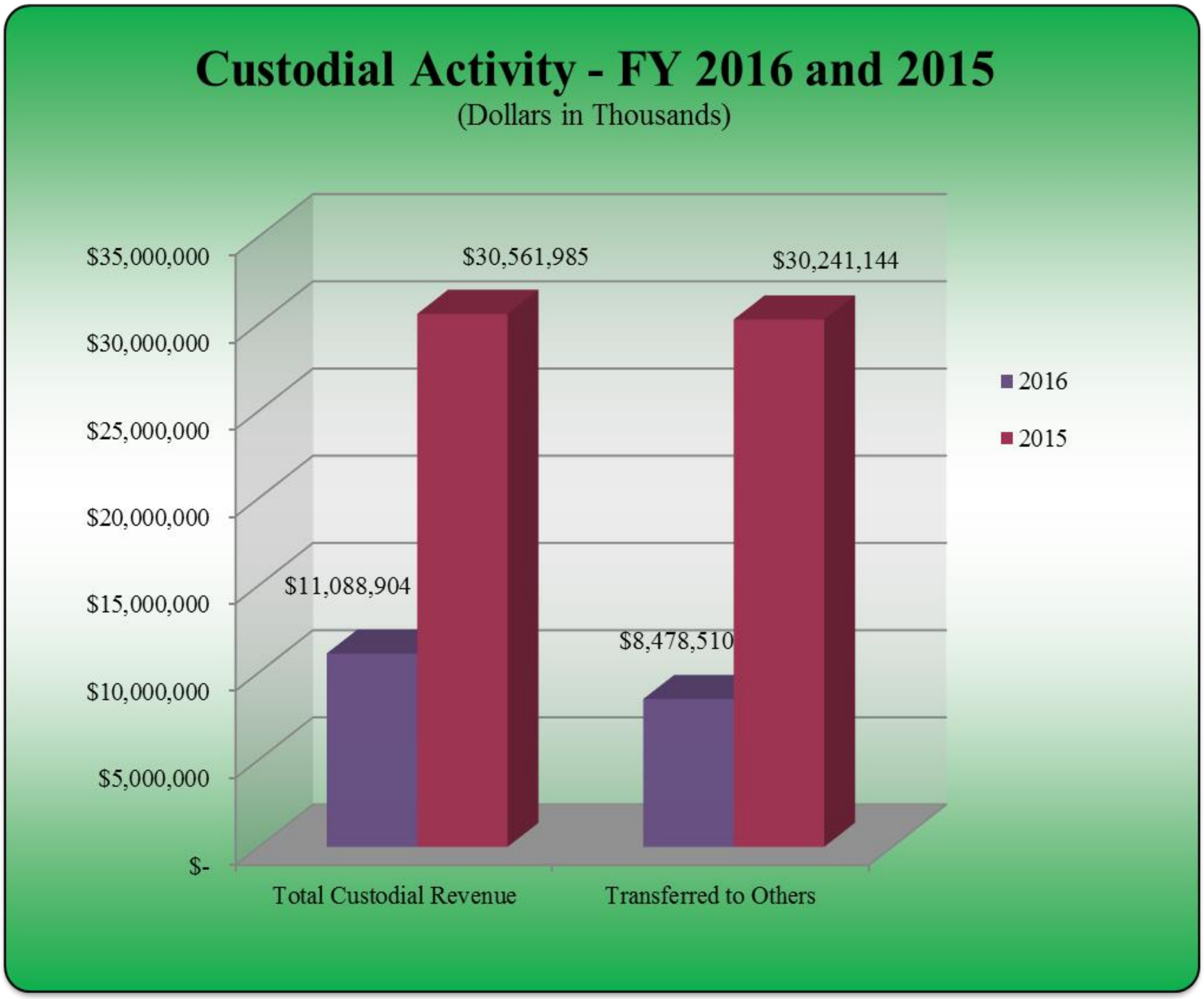
Combined Statement of Budgetary Resources: This statement provides information on how budgetary resources were made available to the Commission for the year and the status of those budgetary resources at the end of the year. The Commission receives most of its budgetary authority from appropriations. 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 $7,519 million in budgetary resources of which $8,825 million was for new obligations and upward adjustments and $(1,306) million remained unobligated. The abnormal balances in FY 2016 and FY 2015 are related to the Connect America Fund (CAF) Phase II obligations. USF is exempt by Congress from the Antideficiency Act through December 31, 2017.

The chart below presents the status of budgetary resources comparatively between FY 2016 and FY 2015.



Consolidated Statement of Custodial Activity: The Commission recognized $11,089 million of custodial revenue during FY 2016. From this balance, $8,430 million from Auction 97 was transferred to the Public Safety Trust Fund that is managed by the National Telecommunications & Information Administration (NTIA). The Commission also transferred $6 million from other auctions and $42 million in miscellaneous receipts, fines and penalties to the U.S. Treasury General Fund.

The chart below presents the total amount of custodial revenue and amounts transferred to others comparatively between FY 2016 and FY 2015.



Other Key Financial Statement Highlights

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 2016, the Commission was required to collect $384 million in regulatory fees. Actual collections were slightly above $388 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 Acting Chief Financial Officer

Due to the historic and first-ever Incentive Auction (Auction), the Commission's Agency Financial Report (AFR) could not be released until the Auction was over. This action was required by the Commission to maintain the integrity of the Auction by retaining certain information confidential during the Auction.

Now that the Auction is over, we are very proud to present the Commission's consolidated financial statements for the fiscal year (FY) 2016. We are very proud to report that, once again, the independent auditors have issued an unmodified audit opinion on each of the Commission's consolidated financial statements. We are especially proud of the fact that this is the eleventh consecutive year the Commission has received an unmodified audit opinion. We are very proud of our work over the last eleven years in earning and maintaining the unmodified audit opinion.

The Commission is committed to improving its financial processes, demonstrating fiscal responsibility and integrity, strengthening technology controls, minimizing the risks of improper payments, and reducing improper payments to the customers and beneficiaries of its reporting components. The Commission will always strive to improve its fiscal management, administration, and oversight of funds reported by the Commission.

In FY 2016, we diligently worked with our reporting components to resolve the material weakness in Universal Service Fund (USF) budgetary accounting and to resolve all other findings related to financial operations that were identified by the auditors in their FY 2015 audit report. However, as a reminder to us that internal control is a process of constant monitoring and constant improvement, the auditors found new areas for us to improve upon in FY 2017. These new areas relate to the untimely reduction of obligations in the USF – Rural Health Care Program and the untimely recognition of non-exchange revenue, as further detailed in their report. The FCC concurs with the recommendations and appreciates their diligence, coordination, and communication throughout the audit process.

We are looking forward to FY 2017 and beyond to make every effort to continue the progress of strengthening the Commission's and its reporting components' internal control environments. In addition, the Commission is working diligently to make the post-incentive auction a success for everyone, to continue to modernize its financial systems to improve the utilization of resources and accuracy of financial reporting, and to improve the effectiveness and efficiency of the Commission's and its reporting components' financial operations.

Finally, I would like to take this opportunity to sincerely thank everyone for their hard work, their professionalism and their customer service through the trials and tribulations for another successful year. Everyone has something to contriubte. Without their contributions, none of our successes would have been possible.

Jae Seong
Acting, Chief Financial Officer
November 15, 2016

Transmittal from Office of Inspector General

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 15, 2016

TO: Chairman

FROM: Inspector General for

SUBJECT: Audit of the Federal Communications Commission's Financial Statements for Fiscal Year 2016

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, the fiscal year 2016 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 were three significant deficiencies noted this year, two related to FCC and USAC's financial reporting and one related to information technology controls at FCC and USAC.

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 15, 2016 and the conclusions expressed therein. Our review, while still ongoing, did not disclose any 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 you extended 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

Independent Auditor's Report

KEARNEY& COMPANY

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

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, 2016 and 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, and 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 audits. We conducted our audits 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 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 FCC as of September 30, 2016 and 2015, and 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and Schedule of Budgetary Resources by Major Account (hereinafter referred to as the "required supplementary information") sections to 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.

Other Information

Our audits were 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, and accordingly, we do not express an opinion or provide any assurance on it.

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1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

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 15, 2016, on our consideration of FCC's internal control over financial reporting and on our tests of FCC's compliance with provisions of applicable laws and regulations for the year ended September 30, 2016. 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 audits.

Kearney & Company

Alexandria, Virginia
November 15, 2016

Independent Auditor's Report on Internal Control over Financial Reporting

KEARNEY& COMPANY

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

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, 2016, and have issued our report thereon dated November 15, 2016. 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 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 FCC's internal control. Accordingly, we do not express an opinion on the effectiveness of 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We consider the following deficiencies in FCC's internal control to be significant deficiencies.

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

Significant Deficiencies

I. Universal Service Fund Budgetary Accounting

During our FY 2015 audit, we found that FCC lacked sufficient reliable controls over its accounting and business processes to ensure that Universal Service Fund's (USF) budgetary transactions were properly recorded, monitored, and reported. We considered the aggregation of control weaknesses to be a material weakness in internal control of USF budgetary accounting. In FY 2016, FCC and the Universal Service Administrative Company (USAC) implemented new processes and controls related to previously identified control deficiencies, reducing the risk associated with USF budgetary accounting. Specifically, controls and processes were refined to ensure that obligations and recoveries for the Schools and Libraries and High Cost programs were accurately monitored and recorded. However, in FY 2016, we continued to identify control deficiencies related to USF recoveries that we consider to be a significant deficiency.

FCC established the USF's Rural Health Care Pilot Program (RHCPP) in 2006 to help public and non-profit health care providers build and connect state and region-wide broadband networks. USAC administers the RHCPP on behalf of FCC. Eligible health care providers applied to participate in the RHCPP when the program started. FCC reviewed the applications and selected 69 providers to participate in the program. USAC issued a Funding Commitment Decision Letter (FCDL) to the health care provider. When USAC issued the FCDL, accounting personnel recorded obligations in USAC's accounting system for each of the 69 projects. As funds were disbursed, USAC's accounting personnel reduced the obligated balance.

FCC established an invoicing deadline of six years, which begins after each provider received its FCDL. After the invoicing deadline, USAC deobligates any unspent funds. FCC reports amounts deobligated in the *Recoveries of Prior Year Unpaid Obligations* line on its Combined Statement of Budgetary Resources (SBR).

We selected a sample of 34 transactions recorded to the *Recoveries of Prior Year Unpaid Obligations* line of the SBR. Of the 34 samples, one related to RHCPP. For each sampled item, we obtained and reviewed the supporting documentation. We noted one instance where a RHCPP deobligation was not recorded in the correct fiscal year. As our original sample included only one RHCPP transaction and we noted an error with that transaction, we analyzed all of the RHCPP recoveries recorded in FY2016 and found that an additional 15 FCDL's were not deobligated on the invoice deadline date.

In FY 2015, USAC's RHC program office opted to batch transactions and did not process deobligations timely for its Pilot program due to staffing constraints. The program did not communicate this decision to accounting personnel and did not consider how its decision would affect USAC's financial statements. Accounting personnel did not have review procedures to ensure that amounts reported by the program as *Unliquidated Obligations* were valid. Because accounting personnel did not have effective review procedures, the RHC program office's decision went unnoticed. Because USAC recorded deobligations in the incorrect fiscal year, the *Recoveries of Prior Year Unpaid Obligations* line on FCC's interim SBR was misstated.

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

1. Develop and implement policies and procedures for recording deobligations in accordance with program rules and accounting standards. *[New]*
2. Develop more formal lines of communication between the accounting personnel and the program offices to ensure proper accounting treatment for transactions. *[Updated]*
3. Develop and implement quality review procedures to ensure that deobligations are processed in the appropriate fiscal year. *[New]*

II. Accounting for Non-Exchange Revenue

FCC is responsible for regulating interstate and international communications. The Communications Act of 1934 authorizes the FCC to use civil monetary penalties (CMP) as a means of enforcing the FCC's rules and regulations. The process to communicate, litigate, or negotiate CMPs requires due process and can take a number of months or years as each situation is unique. CMPs should not be considered revenue for accounting purposes until they represent a legally enforceable debt.

In order to validate the existence and accuracy of the revenue reported by FCC as of June 30, 2016, we tested revenue transactions. For one selected CMP transaction, we found that FCC recognized the revenue before all criteria for revenue recognition had been met. This resulted in a significant overstatement of non-exchange revenue in FCC's interim financial statements.

FCC's policies and procedures require the FCC's Revenue and Receivables Operations Group (RROG) Management to review all CMPs recorded in the FCC's financial system, Genesis, for correct information entered; however, RROG relied on each office responsible for issuing CMPs to perform the review. Although RROG provided each office with a monthly summary report of CMP activity for review, RROG did not validate the accuracy of the report. Specifically, RROG Management did not compare information contained within the report against the original supporting documentation.

Recommendation: Kearney & Company recommends that the FCC enhance its monitoring controls over revenue transactions. Specifically,

1. Management should ensure that RROG personnel properly classify and record all accounting entries. At a minimum, this should include a review of data entered into Genesis against the original supporting documentation.

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III. 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 FCC's general information technology (IT) support system. In addition, because FCC's financial statements include financial transactions relating to the USF programs and the North American Numbering Plan (NANP), 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 FCC's information security program as required by the Federal Information Security Modernization Act (FISMA) of 2014 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 lead to significant misstatements of or corruption to the financial data needed for 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 within Genesis. The control deficiencies noted during our FISMA evaluation and our financial statement audit are summarized below:

- <u>FCC General IT Support System</u> – We noted that FCC had improved its overall information security program since the FY 2015 FISMA evaluation, most notably in developing a risk management program designed to improve the security over FCC information and implementing major changes in its IT environment. The FCC completed the relocation of the primary FCC data center, shifted processing to the cloud, and continued to replace legacy systems and infrastructure. Despite the progress made during FY 2016, we identified control weaknesses in multiple IT control areas, including Information Security Continuous Monitoring, Identity and Access Management, Risk Management, and Contractor Systems. These control weaknesses impacted FCC's general IT support system. FCC management stated that these efforts continue to require significant resources, delaying the full 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.

- <u>FCC Financial Management System</u> – 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, FCC's general IT support system is the gateway for all of the FCC's 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 FCC's general IT support system. Specifically, we noted that the FY 2016 contingency planning test of Genesis failed to meet the required restoration time frame.

- Other FCC Systems – The data in other FCC systems indirectly impacts the information reported in the financial system. We performed risk-based procedures on two of these systems and found that for one of the systems, the authorization to operate had expired. Without an authorization to operate, the FCC is operating a system for which the identified risks have not been evaluated and accepted by management.

- Third-Party Systems and FCC Oversight – FCC relies upon third-parties to provide financial data in an accurate and timely manner. The FISMA evaluation and financial statement audit noted weaknesses in the FCC's oversight of third party IT systems. We found that FCC has not ensured monitoring and compliance with the provisions of FISMA for external entities that operate systems on behalf of FCC. Specifically, we found that FCC lacks policies and procedures for overseeing third-party systems not covered by contractual arrangements and failed to establish plans of actions and milestones to track compliance for external entities' systems operated on behalf of the FCC. Additionally, we performed specific risk-based tests of IT controls at the Universal Service Administrative Company (USAC) and noted weaknesses 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 FCC's financial statements.

Similar weaknesses were noted in the FY 2015 FISMA evaluation and financial statement audit and were reported as a significant deficiency. In general, we found that FCC had not implemented effective policies, procedures and processes over its general support system, financial management system, Genesis, other systems, or third-party operated systems. We consider the aggregation of these control weaknesses 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 financial transactions could be altered either accidentally or intentionally. IT weaknesses increase the risk that FCC will be unable to report financial data in an accurate and timely manner.

Recommendations: Our full FY 2016 FISMA evaluation report includes 39 recommendations intended to improve the effectiveness of FCC's information security program controls in the areas of Information Security Continuous Monitoring, Configuration Management, Identity and Access Management, Incident Response, Risk Management, Contingency Planning and Contractor Systems. Of the 39 recommendations, 29 of the recommendations related to FCC and

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10 of the recommendations related to USAC. Of the 29 FCC recommendations, 26 related to FISCAM control areas. Of the 10 USAC recommendations, 9 related to FISCAM control areas.

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

Status of Prior Year Findings

In the Independent Auditor's Report on Internal Control Over Financial Reporting included in the audit report on the FCC's FY 2015 financial statements,[1] we noted two issues that were related to internal control over financial reporting. The status of the FY 2015 internal control findings is summarized in Table 1.

Table 1. Status of Prior Year Findings

Control Deficiency	FY 2015 Status	FY 2016 Status
Universal Services Fund Budgetary Accounting	Material Weakness	Significant Deficiency
Information Technology	Significant Deficiency	Significant Deficiency

FCC's Responses to Findings

The FCC's response to the significant deficiencies identified in our audit is included 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 2016" included in Agency Financial Report. The FCC's response was not subjected to auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

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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 15, 2016

Independent Auditor's Report on Compliance with Applicable Provisions of Laws and Regulations

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

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, 2016, and have issued our report thereon dated November 15, 2016. 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 FCC's consolidated financial statements are free from material misstatement; we performed tests of its compliance with provisions of applicable laws and regulations 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 FCC. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 15-02. Although our audit procedures did not identify any instances of non-compliance in FY 2016, FCC management communicated a potential instance of non-compliance with the *Antideficiency Act*[1] that was identified in 2011, which is still being researched by FCC as of September 30, 2016.

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

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

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Bulletin No. 15-02, in considering FCC's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2016

Commission's Response to Independent Auditor's Reports

Office of the Managing Director

DATE: November 15, 2016

TO: David L. Hunt, Inspector General

FROM: Mark Stephens, Managing Director
Jae Seong, Acting Chief Financial Officer
Dr. 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 2016

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 independent auditor, Kearney and Company, to work with the Federal Communications Commission (FCC or Commission) throughout the fiscal year (FY) 2016 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 2016 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 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 eleventh straight year, the independent auditor provided an unmodified opinion and found that the Commission's consolidated financial statements for FY 2016 present fairly, in all material respects, the financial position of the Commission as of September 30, 2016. Eleven straight years of clean audit opinions is an unprecedented accomplishment for the Commission. Throughout this entire period, we have worked very hard to continue strengthening the Commission's internal controls and improving its financial management.

Despite these successes, more work remains. The FY 2016 audit report did not identify any material weaknesses but did identify three significant deficiencies. These significant deficiencies related to Universal Service Fund (USF) budgetary accounting, accounting for non-exchange revenue, and information technology controls. We concur with the recommendations made by the independent auditors in their reports.

During FY 2016, the Commission and the Universal Service Administrative Company (USAC) implemented new processes and controls related to the previously identified material weakness related to USF budgetary accounting in the Schools and Libraries and High Cost programs. Although the Commission and USAC made significant improvements in this area in FY 2016 the auditors found a significant deficiency related to recoveries in the Rural Health Care program.

The auditors identified a new control weakness in accounting for non-exchange revenue. The auditors found that controls to record non-exchange revenues need to be improved because those controls were not effective in all instances in FY 2016. Since this accounting error was identified by the auditors before the fiscal year-end, this error did not affect the Commission's FY 2016 consolidated financial statements. We will enhance our existing controls to prevent any recurrence of the same accounting error in the future.

The Commission is committed to remediating information technology control deficiencies. The Commission's information technology team worked diligently throughout FY 2016 to make improvements and to resolve audit findings from previous 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. In FY 2016, the FCC Chief Information Officer (CIO) and the new FCC Chief Information Security Officer led an IT Security team focused on improving the Commission's security posture. This initiative and the work completed in prior fiscal years reduced the overall Commission's FISMA findings by 64 percent from FY 2012, and the Commission is now working diligently to resolve the remaining FISMA issues.

The Commission made significant strides in FY 2016 by resolving the prior year non-compliance related to the Debt Collection Improvement Act. This is the first year that the auditors have reported no instances of non-compliance with applicable provisions of laws and regulations.

Finally, we are committed to continually strengthening the internal controls of the Commission and its reporting components. With sufficient funding, resources, and time, the Commission will continue to address all weaknesses in its information systems and data stores. Also, the FCC expects upgrades in its systems, along with strengthened processes and oversight, will eliminate a considerable number of the remaining weaknesses. Over time, the FCC will implement augmentations to the FCC network infrastructure and governance processes in order to strengthen the Commission's cyber security posture.

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 2017 to resolve the FY 2016 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

Mark Stephens, Managing Director
Office of the Managing Director

Jae Seong, Acting Chief Financial Officer
Office of the Managing Director

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

FEDERAL COMMUNICATIONS COMMISSION
Consolidated Balance Sheet
As of September 30, 2016 and 2015
(Dollars in thousands)

	FY 2016	FY 2015
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 3,568,793	$ 11,659,650
Investments (Note 5)	8,022,992	8,136,062
Accounts receivable (Note 6)	506	21,152
Other	3,740	3,719
Total intragovernmental	11,596,031	19,820,583
Cash and other monetary assets (Note 4)	9,095,208	131,796
Accounts receivable, net (Note 6)	927,444	4,184,884
Direct loans receivable, net	-	3,234
General property, plant, and equipment, net	48,426	28,658
Other	13,024	13,024
Total assets	$ 21,680,133	$ 24,182,179
Liabilities (Note 7):		
Intragovernmental:		
Accounts payable	$ 676	$ 548
Other (Note 8)		
Custodial	3,033,683	540,289
Other	4,782	8,477
Total other	3,038,465	548,766
Total intragovernmental	3,039,141	549,314
Accounts payable	199,051	230,818
Federal employee and veteran benefits	2,838	-
Other (Note 8)		
Deferred revenue	360,718	14,314,772
Prepaid contributions	53,390	48,290
Accrued liabilities for Universal Service	549,167	557,796
Deposit/Unapplied liability	8,949,194	-
Other	29,464	32,142
Total other	9,941,933	14,953,000
Total liabilities	$ 13,182,963	$ 15,733,132
Commitments and contingencies (Note 9)		
Net position:		
Unexpended appropriations - All Other Funds	$ 2,832	$ 2,868
Cumulative results of operations - Funds from Dedicated Collections (Note 10)	8,279,799	8,280,330
Cumulative results of operations - All Other Funds	214,539	165,849
Total net position	$ 8,497,170	$ 8,449,047
Total liabilities and net position	$ 21,680,133	$ 24,182,179

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
Consolidated Statement of Net Cost
For the Years Ended September 30, 2016 and 2015
(Dollars in thousands)

	FY 2016	FY 2015
Program costs (Note 11)**:**		
Promoting Economic Growth and National Leadership:		
Total Gross Cost	$ 7,153,421	
Protecting Public Interest Goals:		
Total Gross Cost	79,543	
Making Networks Work for Everyone		
Total Gross Cost	3,040,999	
Promoting Operational Excellence:		
Total Gross Cost	139,612	$ 73,662
Connect America:		
Total Gross Cost		561,775
Maximize Benefits of Spectrum:		
Total Gross Cost		100,119
Protect and Empower Consumers:		
Total Gross Cost		50,790
Promote Innovation, Investment, and America's Global Competitiveness:		
Total Gross Cost		11,343
Promote Competition:		
Total Gross Cost		7,803,173
Public Safety and Homeland Security:		
Total Gross Cost		46,681
Advance Key National Purposes:		
Total Gross Cost		1,005,997
Total Program Costs	$ 10,413,575	$ 9,653,540
Less: earned revenues not attributed to programs	(536,954)	(483,350)
Net cost of operations	$ 9,876,621	$ 9,170,190

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, 2016 and 2015
(Dollars in thousands)

	FY 2016			FY 2015		
	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	$ 8,280,330	$ 165,849	$ 8,446,179	$ 7,880,477	$ 157,790	$ 8,038,267
Budgetary Financing Sources:						
Appropriations used	-	36	36	-	191	191
Non-exchange revenue	9,934,946	-	9,934,946	9,587,271	-	9,587,271
Other	1	-	1	51	-	51
Other Financing Sources (Non Exchange):						
Transfers in/out without reimbursement	-	-	-	-	(12)	(12)
Imputed financing	-	12,950	12,950	-	13,418	13,418
Other	-	(23,153)	(23,153)	-	(22,817)	(22,817)
Total Financing Sources	9,934,947	(10,167)	9,924,780	9,587,322	(9,220)	9,578,102
Net Cost of Operations	9,935,478	(58,857)	9,876,621	9,187,469	(17,279)	9,170,190
Net Change	(531)	48,690	48,159	399,853	8,059	407,912
Cumulative Results of Operations	8,279,799	214,539	8,494,338	8,280,330	165,849	8,446,179
Unexpended Appropriations:						
Beginning Balances	-	2,868	2,868	-	3,059	3,059
Budgetary Financing Sources:						
Appropriations used	-	(36)	(36)	-	(191)	(191)
Total Budgetary Financing Sources	-	(36)	(36)	-	(191)	(191)
Total Unexpended Appropriations	-	2,832	2,832	-	2,868	2,868
Net Position	$ 8,279,799	$ 217,371	$ 8,497,170	$ 8,280,330	$ 168,717	$ 8,449,047

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
Combined Statement of Budgetary Resources
For the Years Ended September 30, 2016 and 2015
(Dollars in thousands)

	FY 2016	FY 2015
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	$ (3,772,841)	$ 3,297,231
Recoveries of prior year unpaid obligations	780,225	1,237,021
Other changes in unobligated balance (+ or -)	35,922	17,273
Unobligated balance from prior year budget authority, net	(2,956,694)	4,551,525
Appropriations (discretionary and mandatory)	9,974,105	9,610,451
Spending authority from offsetting collections (discretionary and mandatory)	501,541	446,992
Total budgetary resources	$ 7,518,952	$ 14,608,968
Status of Budgetary Resources:		
New obligations and upward adjustments (total) (Note 13)	$ 8,824,700	$ 18,381,809
Unobligated balance, end of year:		
Apportioned, unexpired accounts	237,212	142,910
Exempt from apportionment, unexpired accounts (Note 1 A.)	(1,552,492)	(3,927,155)
Unapportioned, unexpired account	8,237	8,128
Unexpired unobligated balance, end of year	(1,307,043)	(3,776,117)
Expired unobligated balance, end of year	1,295	3,276
Unobligated balance, end of year (total)	(1,305,748)	(3,772,841)
Total status of budgetary resources	$ 7,518,952	$ 14,608,968
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	$ 12,122,027	$ 4,635,566
New obligations and upward adjustments	8,824,700	18,381,809
Outlays (gross) (-)	(10,554,448)	(9,658,327)
Recoveries of prior year unpaid obligations (-)	(780,225)	(1,237,021)
Unpaid obligations, end of year	9,612,054	12,122,027
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(2,250)	(4,270)
Change in uncollected pymts, Fed sources (+ or -)	173	2,020
Uncollected pymts, Fed sources, end of year (-)	(2,077)	(2,250)
Memorandum (non-add) entries		
Obligated balance, start of year (+ or -)	$ 12,119,777	$ 4,631,296
Obligated balance, end of year (net)	$ 9,609,977	$ 12,119,777
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	$ 10,475,646	$ 10,057,443
Actual offsetting collections (discretionary and mandatory) (-)	(541,885)	(473,956)
Change in uncollected payments, Federal sources (discretionary and mandatory) (+ or -)	173	2,020
Recoveries of prior year paid obligation (discretionary and mandatory)	35,922	17,274
Budget Authority, net (total) (discretionary and mandatory)	$ 9,969,856	$ 9,602,781
Outlays, gross (discretionary and mandatory)	$ 10,554,448	$ 9,658,327
Actual offsetting collections (discretionary and mandatory) (-)	(541,885)	(473,956)
Outlays, net (total) (discretionary and mandatory)	10,012,563	9,184,371
Distributed offsetting receipts (-)	(92,804)	(75,478)
Agency outlays, net (discretionary and mandatory)	$ 9,919,759	$ 9,108,893

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
Consolidated Statement of Custodial Activity
For the Years Ended September 30, 2016 and 2015
(Dollars in thousands)

	FY 2016	FY 2015
Revenue Activity:		
Sources of Cash Collections:		
Spectrum Auctions	$ 14,354,740	$ 27,094,686
Fines and Penalties	42,099	113,352
Total Cash Collections	14,396,839	27,208,038
Accrual Adjustments (+/-)		
Spectrum Auctions (Note 6)	(3,334,631)	3,334,631
Fines and Penalties	26,696	19,316
Total Accrual Adjustments	(3,307,935)	3,353,947
Total Custodial Revenue (Note 18)	11,088,904	30,561,985
Disposition of Collections:		
Transferred to Others:		
U.S. Treasury	(48,452)	(113,352)
Spectrum Relocation Fund (OMB)	-	(11,499,988)
Public Safety Trust Fund (NTIA)	(8,430,058)	(18,627,804)
(Increase)/Decrease in Amounts Yet to be Transferred (+/-)	(2,493,394)	(214,841)
Retained by the Reporting Entity	(117,000)	(106,000)
Total Disposition of Collections	(11,088,904)	(30,561,985)
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, 2016 and 2015

(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, 2016, P.L. 114-113, 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, 2017. Accordingly, these funds are not subject to apportionment by the Office of Management and Budget (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 (SFFAC) No. 2, Entity and Display. NANP is not subject to budgetary accounting and Congress has not appropriated funds for NANP in an appropriation bill, as result 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 U.S. generally accepted accounting principles (GAAP) and the form and content for Federal entity financial statements specified by 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

The USF and NANP portion of 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 for USF and NANP is collateralized by the Federal Reserve.

The Commission's portion of Cash and Other Monetary Assets represent upfront payments for the forward auction of Incentive Auction which are deposited in Federal Reserve Bank of New York.

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. General Property, Plant and Equipment, Net

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. General Property, Plant and Equipment, Net (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 improvements, 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 Phase I, the Connect America Fund (CAF) Phase II, Rural Broadband Experiment in high cost area, and National Deaf-Blind Equipment Distribution Program in TRS. For these programs, an accrual is made to Accounts Payable instead of Accrued Liabilities. 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. 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.

Note 1 - Summary of Significant Accounting Policies (continued)

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 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 Department of Labor.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

M. Exchange Revenue and Financing Sources

Regulatory Fee Offsetting Collections (Exchange) – The Omnibus Budget Reconciliation Act of 1993 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: Promoting Economic Growth and National Leadership; Protecting Public Interest Goals; Making Networks Work for Everyone; and Promoting 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 $384,012 for FY 2016 and $339,844 for FY 2015 were achieved. The Commission collected $4,249 above the required regulatory level in FY 2016 and $7,670 in FY 2015. The cumulative amount collected above the required annual regulatory level is $102,616 at September 30, 2016. 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 $117,000 in FY 2016 and $106,000 in FY 2015.

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 $11,020,109 in FY 2016 and $30,429,317 in FY 2015. In FY 2016, the Commission transferred recognized custodial revenue of $8,430,058 from Auction 97 to the Public Safety Trust Fund that is managed by the National Telecommunications and Information Administration (NTIA), and $6,353 from other Auctions to the Treasury General Fund. In FY 2015, the Commission transferred custodial revenue from Auction 97 of $11,499,988 to the Spectrum Relocation Fund that is administered by the OMB and $18,627,804 to the Public Safety Trust Fund that is managed by the NTIA. In FY 2015, all earned spectrum revenue transferred were from Auction 97.

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 $23,153 in FY 2016 and $19,474 in FY 2015.

Note 1 - Summary of Significant Accounting Policies (continued)

M. Exchange Revenue and Financing Sources (continued)

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 $665 in FY 2016 and $2,711 in FY 2015.

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 $9,879,389 and $9,539,289 were received in FY 2016 and FY 2015, respectively. For more information, refer to Note 10.

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 $384,012 for FY 2016 and $339,844 for FY 2015. Regulatory fee collections fully fund the no-year appropriations for FY 2016 and FY 2015.

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 2016 and FY 2015, 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 2016. The Commission did not receive an appropriation in FY 2016 and FY 2015. 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.

N. Reprogramming

In FY 2016, the Commission received approval to reprogram $4,068 of prior year de-obligations to modernize the Enforcement Bureau's field office operations and the Consumer & Governmental Affairs Bureau. In FY 2015, the Commission received approval to reprogram $8,750 of prior year de-obligations to fund information technology investments.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

O. Transactions with Related Parties (continued)

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, 2016 and 2015 are listed below:

Administrative Fees:

	USF	TRS	NANP	Total
FY 2016	$ 158,881	$ 10,008	$ 5,923	$ 174,812
FY 2015	$ 130,339	$ 4,221	$ 5,769	$ 140,329

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. Net position of funds from dedicated collections is separately disclosed in Note 10.

Q. Incentive Auction

In FY 2016, the Commission took significant steps to initiate the Incentive Auction, which uses market forces to align the use of broadcast spectrum with demands for wireless broadband. The Incentive Auction began on March 29, 2016, and as of September 30, 2016, it was in the middle of Stage 2 of the reverse auction. As with any auction, the Commission does not know when the Incentive Auction will end.

R. Comparative Data

Certain FY 2015 amounts have been reclassified to conform to the FY 2016 presentation.

Note 2 - Non-entity Assets

The following summarizes Non-entity Assets as of September 30, 2016 and 2015:

	FY 2016	FY 2015
Intragovernmental:		
Fund Balance with Treasury	$ 3,291,722	$ 11,434,117
Accounts Receivable	376	21,069
Total Intragovernmental	3,292,098	11,455,186
Cash and Other Monetary Assets	8,947,086	-
Accounts Receivable, Net	60,583	3,369,326
Total Non-entity Assets	12,299,767	14,824,512
Total Entity Assets	9,380,366	9,357,667
Total Assets	$ 21,680,133	$ 24,182,179

Non-entity Fund Balance with Treasury (FBWT) and Cash and Other Monetary Assets primarily represents auction deposits. 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, 2016 and 2015:

FY 2016	General Funds	Revolving Funds	Deposit Funds	Total
Unobligated Balance				
Available	$ 76,720	$ -	$ -	$ 76,720
Unavailable	128,684	4	-	128,688
Obligated Balance not yet Disbursed	71,663	-	-	71,663
Non-Budgetary FBWT	-	-	3,291,722	3,291,722
Total	$ 277,067	$ 4	$ 3,291,722	$ 3,568,793
FY 2015				
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

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.

Note 3 - Fund Balance with Treasury (continued)

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 General Fund or other Federal agencies.

Note 4 - Cash and Other Monetary Assets

The following summarizes Cash and Other Monetary Assets as of September 30, 2016 and 2015:

	FY 2016	FY 2015
Cash and Other Monetary Assets	$ 9,095,208	$ 131,796

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. In FY 2016, upfront payments for the forward auction of the Incentive Auction were deposited in Federal Reserve Bank of New York. For more information refer to Note 1 Q. Interest earned on USF and NANP contributions is reinvested.

In FY 2016, Cash and Other Monetary Assets included $145,575 in USF contributions and related accrued interest being held for distribution, $2,547 in NANP deposits and related accrued interest, and $8,947,086 in upfront spectrum auctions payments. No interest was earned on upfront payments.

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. Interest earned on upfront payments was transferred to the Treasury's General Fund.

Note 5 - Investments

The following summarizes Investments as of September 30, 2016 and 2015:

FY 2016	Purchase Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Other Adjustments	Market Value Disclosures
Intragovernmental Securities:							
Marketable Securities							
Treasury Bills	$ 1,771,394	EI	$ 681	$ -	$ 1,772,075	$ -	$ 1,772,330
Treasury Notes	6,231,576	EI	6,609	12,732	6,250,917	-	6,254,071
Total	$ 8,002,970		$ 7,290	$ 12,732	$ 8,022,992	$ -	$ 8,026,401
FY 2015							
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

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; therefore, no adjustment have been made to present market value in FY 2016. However, USF sold $300,000 worth of investments before maturity to meet cash requirements for CAF Phase II support in FY 2015. This early redemption resulted in a total gain of $51. All investments are held by USF and are also recognized as part of Note 10 - Funds from Dedicated Collections.

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, 2016 and 2015:

	Intragovernmental	Public	Total
FY 2016			
Gross Accounts Receivable	$ 506	$ 1,456,940	$ 1,457,446
Allowance for Doubtful Accounts	-	(529,496)	(529,496)
Accounts Receivable, Net	$ 506	$ 927,444	$ 927,950
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

The following summarizes accounts receivable by type as of September 30, 2016 and 2015:

	FY 2016			FY 2015		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 1,134,587	$ (273,674)	$ 860,913	$ 1,094,405	$ (260,406)	$ 833,999
COMAD - Schools and Libraries	121,743	(118,930)	2,813	227,682	(225,592)	2,090
Regulatory Fees	30,791	(24,421)	6,370	32,078	(24,893)	7,185
Spectrum Auction	21,127	(21,127)	-	3,355,959	(21,329)	3,334,630
Civil Monetary Penalties	135,412	(83,547)	51,865	45,438	(22,303)	23,135
Other	13,786	(7,797)	5,989	14,344	(9,347)	4,997
Total	$ 1,457,446	$ (529,496)	$ 927,950	$ 4,769,906	$ (563,870)	$ 4,206,036

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 98% allowance in FY 2016 and 99% allowance in FY 2015.

The September 30, 2015 balance in 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. 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 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 during in 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.

Note 6 - Accounts Receivable, Net (continued)

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 granted an aggregate of 505 licenses to SNR and Northstar.

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 based upon the Commission's rules in place at the time Auction 97 concluded, SNR and Northstar will be obligated to pay the difference (the deficiency payments). In the event they default on any such deficiency payments, DISH issued a guarantee on October 1, 2015, as a backstop to SNR's and Northstar's deficiency payment obligations.

A receivable is not recorded in FY 2016 for the 197 defaulted licenses, since the amount owed is not currently reasonably estimable, and is analogous to a contingent gain. While the minimum obligation to the Commission for the defaulted licenses is established, the potential deficiency payment owed by SNR and Northstar, if any, is contingent upon the outcome of subsequent auctions.

Note 7 - Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2016 and 2015:

	FY 2016	FY 2015
Intragovernmental:		
FECA Liability	$ 560	$ 566
Unemployment Liability	1	11
GSA Real Estate Taxes	2,148	2,673
Total Intragovernmental	2,709	3,250
Actuarial FECA Liability	2,838	-
Other:		
Unfunded Leave	18,629	19,451
Accrued Liabilities for Universal Service	549,167	557,796
Total liabilities not covered by budgetary resources	573,343	580,497
Total liabilities covered by budgetary resources	12,609,620	15,152,635
Total Liabilities	$ 13,182,963	$ 15,733,132

Note 7 - Liabilities Not Covered by Budgetary Resources (continued)

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

Note 8 - Other Liabilities

The following summarizes Other Liabilities as of September 30, 2016 and 2015:

FY 2016	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 3,033,683	$ 3,033,683
Other	-	4,782	4,782
Total Intragovernmental	$ -	$ 3,038,465	$ 3,038,465
Deferred Revenue	$ 31,948	$ 328,770	$ 360,718
Prepaid Contributions	-	53,390	53,390
Accrued Liabilities for Universal Service	-	549,167	549,167
Deposit/ Unapplied Liability	-	8,949,194	8,949,194
Other	-	29,464	29,464
Total Other	$ 31,948	$ 9,909,985	$ 9,941,933

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
Deposit/ Unapplied Liability	-	-	-
Other	-	32,142	32,142
Total Other	$ 34,768	$ 14,918,232	$ 14,953,000

The Custodial Liability includes both cash collected and receivables being held for transfer to the Treasury's General Fund or other Federal agencies. The Commission collects the following types of custodial revenue: spectrum auction revenue, fines and forfeitures revenue, penalty revenue on regulatory fees, and ITS processing fees. 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 primarily represent anticipated future payments for the High Cost, Lifeline, and TRS programs. The obligations for most of these subsidies are not recognized until payment files are approved in the subsequent month. Deposit Liability represents upfront

Note 8 - Other Liabilities (continued)

payments for the forward auction of the Incentive Auction deposited in Federal Reserve Bank of New York. Remaining Other Liabilities primarily represent anticipated payments related to payroll and other services, and 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, 2016, the likelihood of an unfavorable outcome on all current legal cases is considered remote and no additional disclosure is needed.

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 Commission had no activity related to Gifts and Bequests in FY 2016 and FY 2015.

The following summarizes the significant assets, liabilities, and related costs incurred with managing the USF Program as of September 30, 2016 and 2015:

Balance Sheet	FY 2016	FY 2015
Assets:		
Investments	$ 8,022,992	$ 8,136,062
Cash and other monetary assets	145,575	127,061
Accounts receivable, net	864,642	837,145
General property, plant, and equipment, net	29,081	6,251
Other assets	13,024	13,024
Total assets	$ 9,075,314	$ 9,119,543
Liabilities:		
Accounts payable	$ 185,598	$ 218,845
Deferred revenue	7,377	14,176
Prepaid contributions	53,373	48,258
Accrued liabilities	549,167	557,796
Other	-	138
Total liabilities	$ 795,515	$ 839,213
Cumulative results of operations	$ 8,279,799	$ 8,280,330
Total liabilities and net position	$ 9,075,314	$ 9,119,543
Statement of Net Cost		
Net cost of operations	$ 9,935,478	$ 9,187,469
Statement of Changes in Net Position		
Net position beginning of period	$ 8,280,330	$ 7,880,477
Non-exchange revenue	9,934,946	9,587,271
Other financing sources	1	51
Net cost of operations	9,935,478	9,187,469
Change in net position	(531)	399,853
Net position end of period	$ 8,279,799	$ 8,280,330

Note 11 - Intragovernmental Costs and Exchange Revenue

Intragovernmental costs and earned revenues are transactions between the Commission and other reporting entities within the Federal Government. Costs and earned revenues with the public are transactions between the Commission and non-Federal entities. If the Commission purchases goods or services from another Federal entity, the related costs are classified as intragovernmental. If the Commission sells them to the public, the earned revenues are classified as with the public. Intragovernmental costs and earned revenues for the years ended September 30, 2016 and 2015 are the following:

FY 2016

Program Costs	Intragovernmental	Public	Total
Promoting Economic Growth and National Leadership	$ 28,927	$ 7,124,494	$ 7,153,421
Protecting Public Interest Goals	20,105	59,438	79,543
Making Networks Work for Everyone	35,022	3,005,977	3,040,999
Promoting Operational Excellence	35,288	104,324	139,612
Total	$ 119,342	$ 10,294,233	$ 10,413,575
Total Earned Revenue	$ 821	$ 536,133	$ 536,954

FY 2015

Program Costs	Intragovernmental	Public	Total
Promoting Operational Excellence	$ 19,005	$ 54,657	$ 73,662
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
Total	$ 118,738	$ 9,534,802	$ 9,653,540
Total Earned Revenue	$ 2,826	$ 480,524	$ 483,350

Note 12 - Available Borrowing Authority, End of the Period

As of September 30, 2016, the Commission did not have any available borrowing authority. Pursuant to Public Law 112-96 Section 6403 (d) (3), the FCC is authorized to borrow from Treasury up to $1,000,000 to fund payments of relocation costs incurred by the TV broadcasters that are relocated to new spectrum bands. The Channel Reassignment Public Notice, which will be issued after the conclusion of the Incentive Auction will trigger the borrowing authority.

Note 13 - Apportionment Categories of New Obligations and Upward Adjustments: Direct vs. Reimbursable

The following summarizes Apportionment Categories of New obligations and upward adjustments for the years ended September 30, 2016 and 2015:

	FY 2016	FY 2015
Direct:		
Category B	$ 1,500,893	$ 1,378,673
Exempt from Apportionment	7,323,133	17,002,014
Total Direct	8,824,026	18,380,687
Reimbursable:		
Category B	674	1,122
New obligations and upward adjustments (total)	$ 8,824,700	$ 18,381,809

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 $9,415,759 as of September 30, 2016 and $11,895,800 as of September 30, 2015.

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.

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.

Note 15 - Permanent Indefinite Appropriations (continued)

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 2016 Congress limited the amount of the auction proceeds that may be retained and made available for obligation to $117,000.

Note 16 - Legal Arrangements Affecting Use of Unobligated Balances

Pursuant to Public Laws, offsetting collections received in excess of $384,012 in FY 2016 and $339,844 in FY 2015 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 and the Budget of the U.S. Government

There were no material differences between the Combined Statement of Budgetary Resources (SBR) for FY 2015 and the amounts presented in the FY 2017 President's Budget. The FY 2018 *Budget of the United States Government* (President's Budget) with actual numbers for FY 2016 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 Treasury General Fund. Additionally, there is exchange revenue reported on the Statement of Custodial Activity associated with the radio spectrum auction proceeds. For more information, refer to Note 1 M.

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

As of September 30, 2016 and 2015:

	FY 2016	FY 2015
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
New obligations and upward adjustments	$ 8,824,700	$ 18,381,809
Less: spending authority from offsetting collections and recoveries	1,317,688	1,701,287
Obligations net of offsetting collections and recoveries	7,507,012	16,680,522
Less: offsetting receipts	92,804	75,478
Net obligations	7,414,208	16,605,044
Transfers in/out without reimbursement (+/-)	-	(12)
Imputed financing	12,950	13,418
Other Resources	(23,152)	(22,766)
Total Resources Used to Finance Activities	7,404,006	16,595,684
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Undelivered Orders	2,480,041	(7,377,122)
Resources that fund expenses recognized in prior periods	(838)	(960)
Budgetary offsetting collections and receipts that do not affect net cost of operations	92,808	75,591
Resources that finance the acquisition of assets	(31,204)	(7,820)
Other	11,865	(12,229)
Total Resources Used to Finance Items not Part of the Net Cost of Operations	2,552,672	(7,322,540)
Total Resources Used to Finance the Net Cost of Operations	9,956,678	9,273,144
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Increase in annual leave liability	(832)	(1,004)
Upward/Downward reestimates of credit subsidy (+/-)	-	(3,343)
Increase in exchange revenue receivable from the public	(2,187)	(1,000)
Depreciation and amortization	12,366	14,574
Other (+/-)	(89,404)	(112,181)
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	(80,057)	(102,954)
Net Cost of Operations	$ 9,876,621	$ 9,170,190

Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

For the Years Ended September 30, 2016 and 2015
(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 chart below are the major budgetary accounts of the Commission that are aggregated and presented in the September 30, 2016 and September 30, 2015 Combined Statement of Budgetary Resources.

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

FY 2016	S&E	Auctions	USF	Other	Total
Budgetary Resources:					
Unobligated balance brought forward, October 1	$ 20,498	$ 8,851	$ (3,808,302)	$ 6,112	$ (3,772,841)
Recoveries of prior year unpaid obligations	1,857	1,935	776,431	2	780,225
Other changes in unobligated balance (+ or -)	1,879	88	33,955	-	35,922
Unobligated balance from prior year budget authority, net	24,234	10,874	(2,997,916)	6,114	(2,956,694)
Appropriations (discretionary and mandatory)	-	-	9,974,105	-	9,974,105
Spending authority from offsetting collections (discretionary and mandatory)	384,537	117,000	-	4	501,541
Total budgetary resources	$ 408,771	$ 127,874	$ 6,976,189	$ 6,118	$ 7,518,952
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$ 341,580	$ 112,084	$ 8,367,633	$ 3,403	$ 8,824,700
Unobligated balance, end of year:					
Apportioned, unexpired accounts	59,780	14,230	160,493	2,709	237,212
Exempt from apportionment, unexpired accounts	-	-	(1,552,492)	-	(1,552,492)
Unapportioned, unexpired accounts	6,116	1,560	555	6	8,237
Unexpired unobligated balance, end of year	65,896	15,790	(1,391,444)	2,715	(1,307,043)
Expired unobligated balance, end of year	1,295	-	-	-	1,295
Unobligated balance, end of year (total)	67,191	15,790	(1,391,444)	2,715	(1,305,748)
Total status of budgetary resources	$ 408,771	$ 127,874	$ 6,976,189	$ 6,118	$ 7,518,952
Change in Obligated Balance:					
Unpaid obligations:					
Unpaid obligations, brought forward, Oct 1	$ 44,481	$ 32,274	$ 12,045,169	$ 103	$ 12,122,027
New obligations and upward adjustments	341,580	112,084	8,367,633	3,403	8,824,700
Outlays (gross) (-)	(344,447)	(108,563)	(10,098,056)	(3,382)	(10,554,448)
Recoveries of prior year unpaid obligations (-)	(1,857)	(1,935)	(776,431)	(2)	(780,225)
Unpaid obligations, end of year	39,757	33,860	9,538,315	122	9,612,054
Uncollected payments:					
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(2,250)	-	-	-	(2,250)
Change in uncollected pymts, Fed sources (+ or -)	173	-	-	-	173
Uncollected pymts, Fed sources, end of year (-)	(2,077)	-	-	-	(2,077)
Memorandum (non-add) entries					
Obligated balance, start of year (+ or -)	$ 42,231	$ 32,274	$ 12,045,169	$ 103	$ 12,119,777
Obligated balance, end of year (net)	$ 37,680	$ 33,860	$ 9,538,315	$ 122	$ 9,609,977
Budget Authority and Outlays, Net:					
Budget authority, gross (discretionary and mandatory)	$ 384,537	$ 117,000	$ 9,974,105	$ 4	$ 10,475,646
Actual offsetting collections (discretionary and mandatory) (-)	(390,838)	(117,088)	(33,955)	(4)	(541,885)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	173	-	-	-	173
Recoveries of prior year paid obligations (directcretionary and mandatory)	1,879	88	33,955	-	35,922
Budget Authority, net (discretionary and mandatory)	$ (4,249)	$ -	$ 9,974,105	$ -	$ 9,969,856
Outlays, gross (discretionary and mandatory)	$ 344,447	$ 108,563	$ 10,098,056	$ 3,382	$ 10,554,448
Actual offsetting collections (discretionary and mandatory) (-)	(390,838)	(117,088)	(33,955)	(4)	(541,885)
Outlays, net (discretionary and mandatory)	(46,391)	(8,525)	10,064,101	3,378	10,012,563
Distributed offsetting receipts (-)	(40,203)	-	(52,601)	-	(92,804)
Agency outlays, net (discretionary and mandatory)	$ (86,594)	$ (8,525)	$ 10,011,500	$ 3,378	$ 9,919,759

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 -)	5,558	-	11,715	-	17,273
Unobligated balance from prior year budget authority, net	33,641	8,913	4,502,826	6,145	4,551,525
Appropriations (discretionary and mandatory)	-	-	9,610,451	-	9,610,451
Spending authority from offsetting collections (discretionary and mandatory)	340,823	106,056	-	113	446,992
Total budgetary resources	$ 374,464	$ 114,969	$ 14,113,277	$ 6,258	$ 14,608,968
Status of Budgetary Resources:					
New obligations and upward adjustments (total)	$ 353,966	$ 106,118	$ 17,921,579	$ 146	$ 18,381,809
Unobligated balance, end of year:					
Apportioned, unexpired accounts	12,989	8,191	118,853	2,877	142,910
Exempt from apportionment, unexpired accounts	-	-	(3,927,155)	-	(3,927,155)
Unapportioned, unexpired accounts	4,837	56	-	3,235	8,128
Unexpired unobligated balance, end of year	17,826	8,247	(3,808,302)	6,112	(3,776,117)
Expired unobligated balance, end of year	2,672	604	-	-	3,276
Unobligated balance, end of year (total)	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
New obligations and upward adjustments	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)	$ 340,823	$ 106,056	$ 9,610,451	$ 113	$ 10,057,443
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
Recoveries of prior year paid obligations (directcretionary and mandatory)	5,502	57	11,715	-	17,274
Budget Authority, net (discretionary and mandatory)	$ (7,728)	$ 58	$ 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

3. Other Information

Summary of Financial Statement Audit

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

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	1	0	0	0
Total Material Weaknesses	**1**	**0**	**1**	**0**	**0**	**0**

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
	0	0	0	0	0	0
Total Non-Conformances	**0**	**0**	**0**	**0**	**0**	**0**

Improper Payments Elimination and Recovery Improvement Act Reporting Details (Unaudited)

The Federal Communications Commission (FCC or Commission) incorporated improper payments analysis and testing into processes implemented in Fiscal Year (FY) 2016 in compliance with federal improper payment law 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* (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.

- 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 2016, 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 2016 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, 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. SAMPLING AND ESTIMATION

USF: In FY 2016, the Commission utilized statistical sampling methodology to estimate the annual amount of improper payments in the USF-HC, USF-LL and USF-S&L programs. Alternative sampling methods were used for USF-HC and USF-LL, approved by OMB. The USF-S&L plan did not require an alternative sampling method. This process, called the Payment Quality Assurance (PQA) assessment plan, tested disbursements made in calendar year 2015. In accordance with OMB guidance, a brief description of the sampling process follows below.

USF-S&L: A baseline improper payment rate was established for the first time in FY 2015. The Commission maintained the same stratified sampling design in FY 2016 that was used in the prior year, while also substantially reducing the overall sample size from 672 to 493 invoice lines. The *separate ratio estimator* was used for these estimates. The smaller sample size was more than adequate to maintain a margin of error well below the OMB mandated plus or minus 2.5% at the 90% confidence level. The improper payment rate for FY 2016 was estimated at 5.70% plus or minus 1.95%. The improper payment amount was estimated at $119.4 million plus or minus $40.7 million. These figures are obtained by dividing the amounts by the actual disbursements of $2.1 billion.

The sampling frame for FY 2016 consisted of all invoice lines from calendar year 2015. They were first partitioned into two types: C2 (Internal Connections) and C1 (everything else.). These two groups were then stratified by disbursement size, resulting in seven strata according to disbursement amounts and invoice type.

For C1 invoices, after the exclusion of a *de minimis* category in which the disbursement amount was less than $35, there remained 455,724 invoice lines constituting $1,836.5 million in disbursements. 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. Sample sizes in these strata were 42, 162, 172 and 44 respectively, for a total of 420.

For C2 invoices, after the exclusion of a *de minimis* category in which the disbursement amounts were less than $300, there remained 7,944 invoice lines constituting $256.6 million in disbursements, which in turn is about 12.3% of the total $2.1 billion disbursed in the Schools and Libraries Program in calendar year 2015. The disbursement strata for C2 were based on three categories: $300 to $9,999; $10,000 to $99,999; and $100,000 or more. Sample sizes in these strata were 16, 32 and 25 respectively, for a total of 73.

The FY 2016 procedures used for the assessments of calendar year 2015 transactions were similar to those in FY 2015: 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 2016 for USF-S&L was designed to extrapolate an improper payment error rate for the program as a whole.

The physical inspection of equipment that was purchased by a school district or consortium and distributed to more than two schools was performed on a sample of schools selected by a statistician. The statistician selected a sample with probability proportional to either the dollar amount or the number of pieces of equipment received by each location. Improper payments from the sample of schools were then extrapolated to obtain an estimate of the improper payment amount for the district/consortium as a whole. (If the district distributed equipment to just one or two schools, both were inspected so there was no extrapolation to the whole district in those cases.)

USF-LL: In FY 2016, the Commission used stratified simple random sampling to select a sample of *monthly transactions* from calendar year 2015. The sample frame consisted of 1,786 Study Area Codes (SACs) that had total absolute disbursements of at least $1,200 in the prior calendar year 2014. (Calendar 2015 totals were not yet available at the time the sample was drawn in October of that year.) The SACs were then grouped into three strata according to their absolute disbursement totals as follows:

- *Small*: $1,200 to $149,999
- *Medium*: greater than or equal to $150,000 but less than $1 million
- *Large*: $1 million or more

The number of SACs that fell into each of these strata was 1,289, 252 and 245, respectively. The SACs in each stratum were randomly sorted. Optimal allocation methods in sampling theory led to the decision to sample 24 transactions per month, allocated to the strata as follows:

- *Small*: 6 per month, 72 annually
- *Medium:* 7 per month, 84 annually
- *Large:* 11 per month, 132 annually

Within each stratum, the first monthly sample size of SACs in the sorted list had their January USF-LL disbursement chosen for PQA assessment; then the next monthly sample size of SACs had their February USF-LL disbursement chosen, and so on for the remainder of the year. This process insured that no SAC would be assessed more than once during the year.

The PQA plan used in FY 2016 for USF-LL is an alternative sampling methodology, as approved by OMB, and was not designed to extrapolate an improper payment error rate for the program as a whole. 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 2015 transactions included: 1) steps to measure the accuracy of disbursements, including information on the FCC Form 497; 2) evaluation of carrier eligibility; and 3) testing of subscriber detail and certifications. Please see below for more complete listing of testing of transactions.

Plans are currently in place to enhance testing procedures for FY 2017, along with a statistically valid sampling plan, as required by OMB guidance, M-15-02, that will enable the Commission to have a baseline established for the Lifeline program as an outcome of the FY 2017 testing period.

Three different classes of improper payments were identified in the sample of 288 disbursements and then extrapolated to estimate the total amount for the full year.

1. Class 1 consisted of exceptions tested on all subscribers. These included improper rate, unsupported lines, missing or incomplete subscriber data (name, address, date of birth, last four digits of Social Security Number), duplicate subscriber, and incomplete documentation.
2. Class 2 consisted of exceptions that could only be tested on a sample of subscribers. These consisted of missing enrollment or re-certification forms, and submitted forms that lacked a name, date, or signature. The latter are called forms with inadequate certification. Class 2 exceptions were tested on random samples of 20 to 50 subscribers for each case. The sample results were then extrapolated to obtain an estimate of improper payments to this invoice due to Class 2 exceptions.
3. Class 3 consisted of those cases subject to the One Per Household (OPH) criterion. There were 208 such cases out of the total sample of 288. In most of these cases, subsamples of individuals were used to estimate the total amount of improper payments arising from OPH exceptions. In households with 2-4 beneficiaries, sample sizes ranged from 25 to 60 subscribers. In households with more than 4 beneficiaries, sample sizes ranged from 20 to 35 subscribers. Improper OPH payments from a sample of subscribers listed on an invoice were extrapolated to estimate the total improper payment due to OPH exceptions for the entire invoice.
4. The three classes of improper payments were combined to obtain the total improper payment made to an invoice. These improper payments were then extrapolated to estimate the total improper payment amount for the Lifeline program.

In a stratified sampling design, there are several methods of obtaining a statistically valid estimate of the improper payment rate and amount. The *combined ratio estimator* has been the preferred choice in prior years for USF-LL, but an anomaly occurred in FY 2016 because of large payments to some SACs. This phenomenon caused distortion in the sample, especially in the *Small* stratum, where the average disbursement in the sample was much larger than that of the stratum as a whole. Consequently, the *separate ratio estimator* was used this year because it adjusts for the difference between the actual and sample average disbursements at the strata level (in contrast to the *combined ratio estimator* which combines the strata results before adjusting). The estimated improper payment amount for USF-LL in FY 2016 using the separate ratio estimator was $40,650,480 with a margin of error plus or minus $33,877,060. The corresponding estimated improper payment rate was 2.93% with a margin of error plus or minus 2.44%. These figures are obtained by dividing the amounts by the actual total disbursements of $1.387 billion.

<u>USF-HC:</u> In FY 2016, the Commission used stratified simple random sampling to select a sample of *monthly transactions* from calendar year 2015. The sample frame consisted of 1,761 Study Area Codes (SACs) that had total absolute disbursements of at least $1,200 in the prior calendar year 2014. (Calendar Year 2015 totals were not yet available at the time the sample was drawn in October of that year.) The SACs were then grouped into three strata according to their absolute disbursement totals as follows:

- *Small*: $1,200 to $999,999
- *Medium*: greater than or equal to $1 million but less than $4 million
- *Large*: $4 million or more

The number of SACs that fell into each of these strata was 946, 557, and 258, respectively. The SACs in each stratum were randomly sorted. Optimal allocation methods in sampling theory led to the decision to sample 30 transactions per month, allocated to the strata as follows:

- *Small*: 5 per month, 60 annually
- *Medium:* 15 per month, 180 annually
- *Large:* 10 per month, 120 annually

Within each stratum, the first monthly sample size of SACs in the sorted list had their January USF-HC disbursement chosen for PQA assessment; then the next monthly sample size of SACs had their February USF-HC disbursement chosen, and so on for the remainder of the year. This process insured that no SAC would be assessed more than once during the year.

The PQA plan for USF-HC used in FY 2016 is an alternative sampling methodology, as approved by OMB, and 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 2015 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.

Plans are currently in place to enhance testing procedures and changes for FY 2017, along with a statistically valid sampling plan, as required by OMB guidance, M-15-02, to enable the Commission to have a baseline established for the USF-HC program as an outcome of the FY 2017 testing period.

Improper payments of $37,942 were identified in the sample of 360 disbursements and then extrapolated to estimate the total amount for the full year. In a stratified sampling design, there are several methods of obtaining a statistically valid estimate of the improper payment rate and amount. The various methods usually produce estimates are that similar but some may have more accuracy, by which we mean a smaller margin of error. The *combined ratio estimator* has been the preferred choice in prior years, but an anomaly occurred in FY 2016 because of large transitional and lump sum Phase 2 payments to several SACs during the August-December period as part of the Connect America Fund process. This phenomenon caused distortion in the sample, especially in the *Small* stratum, where the average disbursement in the sample was much larger than that of the stratum as a whole. Consequently, the *separate ratio estimator* was used this year because it adjusts for the difference between the actual and sample average disbursements at the strata level (in contrast to the *combined ratio estimator* which combines the strata results before adjusting.) The estimated improper payment amount for USF-HC in FY 2016 was $1,100,576 with a margin of error plus or minus $765,987. The corresponding estimated improper payment rate for USF-HC was 0.026% for FY 2016 with a margin of error plus or minus 0.018%. These figures are obtained by dividing the amounts by the actual total disbursements of $4.3 billion.

TRS: 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 previously approved by OMB. The independent audit firm relied on the guidance issued by OMB. The plan used in FY 2016 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, 2015 through June 30, 2016. The list below identifies the risk areas or attributes associated with improper payment to TRS Service Providers. These risks were tested for improper payments and the test results were utilized to develop the improper payment rate.

1. Payments made to TRS Service Providers on the "red light" list.
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.
3. Payments are made to VRS, IP Relay, or IP CTS service providers for days where the SOA daily performance standards are not met.
4. TRS funds are disbursed without proper authorization from RL to the bank and/or amounts do not reflect the approved rate.
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.
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.
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 paid for all services during the program year July 1, 2015 through June 30, 2016 was approximately $982 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 and the population was based upon the individual CDRs submitted for reimbursement for the three (3) IP-based services. The amount paid during program year July 1, 2015 through June 30, 2016 for all three IP-based services was approximately $963 million. The sample was selected randomly using actual values and the formula recommended in the statisticians approved statistical plan.

The sample size for attributes 5 and 6 varies for each IP service according to the table listed below.

TRS Service	Actual Total Record Count	Sample Record Count
VRS	69,337,531	200
IP CTS	128,595,846	170
IP Relay	3,228,348	165

Upon complete analysis of the test results, no improper payments were identified. It should also be noted that the error rate is the absolute value of all erroneous payments during the program year July 1, 2015 through June 30, 2016 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 in FY 2015 and continued operating under the baseline procedures in FY 2016. Plans are currently in place for the FY 2017 testing period to enhance testing procedures for USF-HC and USF-LL programs. These enhanced procedures, along with a statistically valid sampling plan, as required by Appendix C, will enable the FCC to establish a baseline for the USF-HC and USF-LL programs as an outcome of the FY 2017 testing process.

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 2015 and the past year outlays are for calendar year 2014. For TRS, the time period tested is the program year, which is July 1, 2015 to June 30, 2016 for the current year, and the past year is July 1, 2014 to June 30, 2015. 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[2]	CY IP %	CY IP $	CY Over-payment $	CY Under-payment $	CY + 1 Est. Outlays	CY + 1 Est. IP %[3]	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	$3,744.68	0.08%	$2.80	$4,305.42	0.03%	$1.10	$0.30	$0.80	$4,704.47	0.03%	$1.22	$4,919.16	0.03%	$1.28	$4,792.72	0.03%	$1.25
USF-S&L	$2,286.31	6.33%	$144.65	$2,093.19	5.70%	$119.36	$119.36	$0.00	$3,387 58	5.50%	$186.32	$3,562.60	5.00%	$178.13	$3,248.21	4.75%	$154.29
USF – LL	$1,635.86	0.45%	$7.31	$1,387.13	2.93%	$40.65	$40.65	$0.00	$1,602.71	2.75%	$44.07	$1,620.34	2.50%	$40.51	$1,585.71	2.25%	$35.68
TRS	$901.17	0.00%	$0.00	$981.66	0.00%	$0.00	$0.00	$0.00	$1,109.83	0.00%	$0.00	$1,115.64	0.00%	$0.00	$1,129.09	0.00%	$0.00
TOTAL[1]	**$8,568.02**	**1.81%**	**$154.76**	**$8,767.40**	**1.84%**	**$161.11**	**$160.31**	**$0.80**	**$10,804.59**	**2.14%**	**$231.61**	**$11,217.74**	**1.96%**	**$219.92**	**$10,755.73**	**1.78%**	**$191.21**

[1] Please note that as discussed in section II above, the FCC is still working towards establishing baseline error rates for USF-HC, USF-LL, and TRS. As such, the improper payment error rates in this table do not represent the baselines error rates for those FCC's programs yet. The FCC should have baseline error rates in its FY 2017 report.
[2] In the case of CY Outlays for USF-HC, USF S&L, and USF-LL, the numbers shown are calendar year numbers because the USF program fund year runs on a calendar year basis. In the case of TRS, the numbers shown are for the TRS fund year which runs from July 1 through June 30.
[3] The targeted future year improper payment rates are essentially constant for USF-HC (0.03%) for FY 2017-FY 2019. 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 0.03%. 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 rates to necessarily 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 USF-S&L and USF-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	$1.23	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	$7.84	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	$46.87	N/A	$23.54	N/A	$0.00	N/A
Other Reason (a) (Incorrect Part 36 and Incorrect Revenues)		$0.30	$0.80	N/A	N/A	$0.00	N/A	N/A	N/A
Other Reason (b) (see table below)		N/A	N/A	$63.42	N/A	$0.00	N/A	N/A	N/A
Other Reason (c) (Duplicate Subscriber)		N/A	N/A	N/A	N/A	$17.11	N/A	N/A	N/A
TOTAL		**$0.30**	**$0.80**	**$119.36**	**N/A**	**$40.65**	**N/A**	**$0.00**	**$0.00**

Table 2.1
Insufficient Documentation to Determine (USF-S&L)
($ in millions)

Insufficient Documentation to Determine (USF-SL)	Improper Payments Amounts	
	Overpayments	Underpayments
Multiple documents missing	$42.93	N/A
Proof of Payment or Proof of Deposit	$1.15	N/A
Service Provider Bills	$2.79	N/A
Total Insufficient Documentation to Determine	**$46.87**	**N/A**

Table 2.2
Insufficient Documentation to Determine (USF-LL)
($ in millions)

Insufficient Documentation to Determine (USF-LL)	Improper Payments Amounts	
	Overpayments	Underpayments
Unsupported subscriber count	$0.14	N/A
Missing Subscriber Data	$14.66	N/A
Inadequate Certifications	$6.96	N/A
One Per Household Rule	$1.78	N/A
Total Insufficient Documentation to Determine	**$23.54**	**N/A**

Table 2.3
Other Reason (b) – (USF-S&L)
($ in millions)

Other Reason (b) – USF-S&L	Improper Payments Amounts	
	Overpayments	Underpayments
Competitive Bidding	$12.19	N/A
Discount Calculation Error	$11.67	N/A
Failure to Pay Non-Discount Share	$1.43	N/A
Funding received by entities not on Form 471	$0.73	N/A
Ineligible Services	$0.01	N/A
Internal Connections/Services Put to Ineligible Use	$1.55	N/A
Internal Connections/Not Installed	$10.61	N/A
SP LCP Confirmation/No Certification BEAR / SPI	$25.24	N/A
Total Other Errors	**$63.42**	**N/A**

V. IMPROPER PAYMENT CORRECTIVE ACTIONS

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 and USF-LL exceed the statutory thresholds for FY 2016. Below, the Commission details its efforts to prevent and reduce future improper payments for both the USF-S&L and USF-LL programs. 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 continued analyzing audit and assessment data in an effort to identify common findings. In addition, USAC refined its "full circle" approach which allows for development of 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. USAC developed corrective action plans to address the recommendations. About half of the corrective action plans have been completed and half are still in progress. Most of the items that are still in progress are long-term initiatives that rely heavily on IT system development or require extensive collaboration between USAC and the FCC.

- The Commission and USAC are overhauling E-rate information collections and the IT systems. Developments 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 documentation 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 Form 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 few 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 on-going applicant trainings being conducted by USAC. USAC has also hired a Director of Stakeholder Engagement to oversee outreach activities to USF-S&L beneficiaries and service providers. In addition, USAC is establishing a vendor management group to provide additional oversight on stakeholder interaction and the application review process. 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:** USAC will continue to perform outreach with States to assist with the identification of eligible entities; this will be performed on a biennial basis. USAC provides additional training to include webinars, monthly calls, annual trainings, weekly News Briefs, etc. to better educate applicants and service providers on their obligations as program participants.

- **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 after the last date of service 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. Applicants are 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. This initiative is still in progress.

- **Administrative or Process Error:** 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; USF-S&L is developing an invoicing portal that will require applicants to include line item descriptions of the services/equipment billed.

  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.

- **Other Reason:** 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.

  The *Second E-rate Modernization Order* directs USAC to simplify the calculation of discount rates to enable applications 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 rates.

USF-LL

- **Unsupported Subscriber Count, Missing Subscriber Data, and Inadequate Certifications**: In USAC's continuing efforts to ensure carriers are successful at implementing FCC rules and program requirements, USAC has implemented outreach activities designed to reduce improper payments and the potential for errors identified during audits and Payment Quality Assurance (PQA) reviews. These outreach efforts include the creation of the Circle of Life Common Audit Finding webpage that outlines the description of this finding (among others), and ways to prevent the finding from occurring in the future. The site also provides examples and scenarios for carriers to best understand the root cause of the audit finding. Additional outreach efforts include a quarterly newsletter and monthly webinars used to educate carriers on rules and program requirements.

- **One Per Household Rule**: USAC will implement outreach efforts to service providers specific to the One Per Household rule that will include additional development to our website citing the most common audit finding "Lack of Documentation: One-per-Household Certification Documentation." USAC will also develop content to include in newsletters and webinars focusing on the rule and best practices to ensure compliance.

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 and USF-LL are the only programs that exceed the statutory thresholds for FY 2016. 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 key internal controls throughout the company, including internal controls over payments.

In FY 2015, in response to a recommendation from the 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 have developed corrective action plans to implement the recommendations. About half of the corrective action plans have been completed and half are still in progress. Most of the items that are still in progress are long-term initiatives that rely heavily on IT system development or require extensive collaboration between USAC and the FCC.

In FY 2016, USAC 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 as well as 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 requisite knowledge and skill needed to perform their duties.
- 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 and USF-LL programs). 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 2016, USAC began an initiative called the Circle of Life, with the purpose of identifying the root cause of common audit findings and developing action plans to address the root causes. The overall goal is to decrease the number of improper payments and audit findings going forward. The process involves a cross-functional team of personnel from divisions across the organization including but not limited to the USF programs, internal audit, and stakeholder engagement. Action plans and the status of completion are reported to both the USAC Board of Directors and the FCC at least annually.

  Finally, USAC has begun designing an enterprise risk management (ERM) framework led by USAC's newly-hired Director of Compliance and Risk in order to implement the requirements established in the recently revised OMB Circular A-123.

- 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 findings.

  Finally, 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	USF – LL
Control Environment	3	3
Risk Assessment	3	3
Control Activities	3	3
Information and Communication	4	4
Monitoring	3	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 and USF-LL are the only programs that exceeds the statutory thresholds for FY 2016. 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 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 regularly, providing managers and decision-makers with timely feedback and measurement of progress toward achieving the strategic objectives.

VIII. AGENCY INFORMATION SYSTEMS AND OTHER 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 and USF-LL are the only programs that exceeds the statutory thresholds for FY 2016.

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 implemented a system to support the program's funding year 2016 application activities, including processing of the Form 470 and 471.

In the case of USF-LL, in March of 2016, the FCC adopted a Lifeline Modernization Order that directed USAC and the Wireline Competition Bureau to take the necessary steps to establish a third party national verifier. The FCC established a revised deadline for the end of 2019 for the establishment of a third party verifier. The National Verifier will take the place of Lifeline providers in determining program eligibility in all states and territories. The primary means of determining eligibility for the Lifeline program is proof of participation by the applicant in other government programs for low income households. As such, the National Verifier will interface with both state and federal eligibility databases to verify the applicant's enrollment in such programs. Consumers, providers, and state and Tribal administrators will be able to access components of the National Verifier to confirm eligibility, facilitate administration, and reduce improper payments. Specifically, the National Verifier will be deployed in phases with at least five states/territories being launched by the end of 2017, an additional 20 states/territories launched in 2018, and the remaining states/territories by the end of 2019. The National Verifier will be built by an external systems integrator who will be selected from a competitive procurement that is currently ongoing. The FCC and USAC will provide updated information on the National Verifier system in this section in future reports but will also provide information to the public about the rollout of the National Verifier as this effort proceeds. The FCC and USAC expect the implementation of the National Verifier to assist greatly in preventing improper payments. The National Verifier will also improve upon the current primary means for resolving duplicates in the Lifeline program through the system, known as the National Lifeline Accountability Database (NLAD).

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.

In the case of the USF-LL program, as discussed previously, the FCC is working with USAC to establish a new National Eligibility Verifier system pursuant to the FCC's March 2016 Lifeline Modernization Order to improve upon the current eligibility determination process. The National Verifier will take the place of Lifeline providers in determining program eligibility in all states and territories. The primary means of determining eligibility for the Lifeline program is proof of participation by the applicant in other government programs that provide benefits for low income households. As such, the National Verifier will interface with both state and federal eligibility databases to verify the applicant's enrollment in such programs. With the exception of Supplemental Nutrition Assistance Program (SNAP), all of the eligibility programs have national databases (i.e., Supplemental Security Income (SSI), Veteran's Pension, Federal Public Housing Assistance (FPHA), and Medicaid). The Center for Medicaid and Medicare Services (CMS) is actively working on building the national database of Medicaid eligibility data and the system has an expected completion date of December 2016. Without an eligibility database, which some states do have, the means for a verifier to check for eligibility is limited to documentation review. In order to minimize the need for the verifier to review documents, USAC and FCC are working to sign data sharing agreements with all state entities and federal agencies with relevant eligibility data sources. There should not be barriers to establishing the data sharing agreements; however, the FCC wanted to note that this process is ongoing and not resolved yet. Furthermore, the success of the National Verifier is contingent upon the accuracy and availability of the data that it will be accessing from the other programs that Lifeline applicants can use to establish eligibility.

X. RECAPTURE OF IMPROPER PAYMENTS REPORTING

The following discussion is a summary of the Commission's payment recapture audits for FY 2016 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 for the FY 2016 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);
- Generally, 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 2016 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 continue to incorporate lessons learned into future audit and assessment efforts.

USAC completed 158 audits in FY 2016, of which 68 involved overpayments. Of these, auditors have identified $8,044,263 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	46	29	$1,456,833
USF-S&L	81	32	$6,503,946
USF-LL	16	4	$4,504
USF-RHC	15	3	$78,980
Total	**158**	**68**	**$8,044,263**

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 auditee 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, throughout the year, USAC develops a root cause action plan to identify commonalities across the audits for each program. USAC then makes appropriate 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 Section V, Improper Payment Corrective Actions. USF-S&L audit findings are similar to the improper payments identified in the sampling process, thus 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; (4) developing additional training tools such as online videos and testing for carriers to measure their understanding of program requirements; and (5) hiring a Director of Stakeholder Engagement. 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 has recently implemented changes to the USF-LL program that could reduce improper payments due to upcoming changes in eligibility verification through the implementation of a new National Eligibility Verifier to make independent subscriber eligibility determinations.

For USF-HC, in July 2016, all eligible telecommunications (ETCs) 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 has also created a dedicated website that references rules established by orders, such as specific direction regarding documentation requirements. 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-HC program is continuing to evolve pursuant to the *USF/ICC Transformation Order* originally adopted by the Commission in 2011 and going-forward will modify its approach to address audit findings. The program currently performs desk reviews and verification checks before and after making disbursements that are designed to proactively reduce errors. Therefore, starting in 4Q2016, rather than providing beneficiaries with information to avoid audit findings, USAC will perform corporate assurance audits designed to ensure verification checks are adequate and effective. The modified process in combination with the corporate assurance audits will result in a reduction of audit findings.

The USF-RHC program is continuing to evolve following the *Healthcare Connect Fund (HCF) Order* adopted by the Commission in 2012. The RHC audits with findings in FY 2016 were audits of the Commission's pilot program for health care providers. That program has since transitioned into the Healthcare Connect Fund pursuant to the *HCF Order* so Commission efforts to prevent improper payments are focused on the new program. These efforts include a new IT system and greater outreach to participants.

To assist in the completion of payment recapture audits in FY 2016, 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

Each year USAC has a financial statement audit and an agreed upon procedures audit that is conducted by an independent audit firm as well as an assessment of its internal controls performed by USAC staff. As in the past, there have been no significant deficiencies found. In FY 2016, improper payments in the amount of $3,328 dollars were identified due to improper use of the corporate credit card. This amount is reflected in Table 4 below in the columns related to amounts recaptured outside of payment recapture audits. USAC considers payment of expenses unrelated to customary and reasonable expenses incurred on behalf of USAC while performing authorized business activities to be improper. USAC's policy requires that an expense report indicating that the charge was a personal expense be submitted within two weeks of incurring the charge. Amounts owed are deducted from the employee's next paycheck. The improper payment has been recovered in full. The Commission continues to identify this program as not susceptible to significant improper payments.

USAC has not identified any overpayments in the payment recapture audits of its administrative outlays at this time, 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. Rolka Loube, LLC (RL), the TRS Fund Administrator, having been awarded a contract by the FCC, is responsible for the collections and disbursements from the TRS Fund with oversight, guidance, and direction from the FCC. TRS outlays for FY 2016 totaled approximately $1.03 billion.

In FY 2016, RL conducted four scope audits for eight providers that focused on two prior year audits, four IP CTS registration audits, one IP Relay cost analysis audit and two STS Outreach audits. The audits covered the period of July 1, 2015 to April 30, 2016. TRS providers certified to offer IP Relay or VRS service were audited for: (1) compliance regarding user registration of TRS IP CTS services; (2) TRS IP Relay costs incurred; (3) TRS STS Outreach costs; and (4) follow-up on any open findings. Within these four scope audits of the eight providers, RL had a total of 16 findings with recommendations. One provider reimbursed the TRS fund $18,658.96 because it self-disclosed that it had identified 9 customers who appeared to have submitted outdated third-party certification forms. Also, this same provider self-disclosed that a former employee misrepresented that they had properly installed caption phones although these phones were never installed resulting in a reimbursement to the fund of $502.61. Lastly, one provider had a system glitch that caused a small number of user Accepted Dates to be overwritten with new Accepted Dates. This self-reporting resulted in the Fund being owed a reimbursement of $1,207.76. All findings are currently being remediated by the provider and RL is awaiting further evidence.

For all TRS payment recapture 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 finding. For any overpayments identified in its payment recapture audits, RL seeks 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. Total outlays for the NANP Fund for FY 2016 totaled approximately $5.9 million. Welch, as the billing and collection agent of the NANP Fund, oversees disbursements for the NANP program.

In FY 2016, Welch tested 91% of the transactions representing $5.4 million for improper payments and found no overpayments to recapture. In addition, in connection with the NANP Fund annual financial statement audit for FY 2015, an independent auditor tested approximately $1.38 million in disbursements, which represented 24 percent of the approximately $5.9 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 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. 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 2016, 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 2016 totaled approximately $456 million, excluding intra-governmental custodial payments as allowed by OMB. . The Commission has not identified any overpayments or underpayments 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.

Payment Recapture Audit Reporting
In Table 4 below, the Commission reports the amounts identified in FY 2016 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 2016, regardless of the time period the audit covered or when the overpayment was actually made.

The targets for USF-Admin, 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 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
Overpayment Payment Recaptures with and without Audit Programs
($ in millions)

Overpayments Recaptured through Payment Recapture Audits														
Program or Activity	Contracts					Benefits					Total		Overpayments Recaptured Outside of Payment Recapture Audits	
	Amount Identified	Amount Recapture	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured[1]	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	Amount Identified	Amount Recaptured
USF-HC	N/A	N/A	N/A	N/A	N/A	$1.457	$1.398	95.95%	96.00%	97.00%	$1.457	$1.398	$27.280[2]	$0.007
USF-S&L	N/A	N/A	N/A	N/A	N/A	$6.504	$2.100	32.29%	40.00%	50.00%	$6.504	$2.100	$7.453	$10.897
USF-LL	N/A	N/A	N/A	N/A	N/A	$0.004	$0.285	7,125.00%	95.00%	96.00%	$0.004	$0.285	$16.990[3]	$0.179
USF-RHC	N/A	N/A	N/A	N/A	N/A	$0.079	$0.001	1.27%	50.00%	70.00%	$0.079	$0.001	$0.000[4]	$0.086
USF-Admin	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$0.003[5]	$0.003
FCC	N/A	N/A	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	N/A	N/A	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	$0.020	$0.019	95.00%	100.00%	100.00%	$0.020	$0.019	N/A	N/A
TOTAL	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**$8.064**	**$3.803**	**47.16%**	**76.20%**	**82.60%**	**$8.064**	**$3.803**	**$51.726**	**$11.172**

Footnotes for Table 4

[1] Per OMB Circular A-136, section II.5.8, part X, subparagraph (c), please note that these will be payments that were identified and/or recaptured in the current reporting year; however, the actual payment itself may have been made in a prior reporting year or in the current reporting year.

[2] This amount includes an ongoing investigation where the FCC and USAC have identified an amount to be repaid; however, the FCC is still working on the final amount and other criteria that will apply to the repayment process.

[3] The USF-LL Amount Identified includes the following items: (1) Results of the Biennial Audits (In the Lifeline Reform Order, the FCC directed WCB, in conjunction with OMD, to develop standard procedures for independent biennial audits of (ETCs) receiving $5 million or more annually. On April 20, 2016, USAC made an agreement with the FCC to recover the funds identified during the biennial audits.); (2) Duplicate Scrubbing for Puerto Rico (The only Lifeline duplicate scrubbing that was performed in FY 2016 was related to the addition of Puerto Rico in the National Lifeline Accountability Database. The Track 1 scrubbing resulted in 8,114 duplicate subscribers being de-enrolled across 11 Study Area Codes (SACs). To determine a reasonable improper payment amount associated with these de-enrollments, USAC determined the number of months each subscriber had been enrolled in the program since the beginning of the fiscal year. USAC calculated the average number of months enrolled since the beginning of the fiscal year for each SAC. USAC multiplied the average number of months by the number of de-enrollments and then multiplied that by the rate of $9.25 per month for each SAC. The total improper payment amount across the 11 SACs is $563,272.00. Track 2 scrubbing is underway but has not been completed.); and (3) the Blue Jay Wireless recovery (In July 2015, the FCC's Enforcement Bureau announced a settlement with Blue Jay Wireless to resolve an investigation concerning payments made through the Lifeline program. Under the settlement, Blue Jay Wireless will reimburse approximately $2.2 million to the USF. Of the $2.2 million, $1,177,000 was reported as an amount identified in the 2015 FCC AFR. At that time, USAC had identified approximately $1.2 million as improper and had been instructed by the FCC to withhold $1,042,477. This amount was reported as the amount recaptured in the 2015 FCC AFR. With the settlement, we are reporting the remaining $825,000 as the amount identified. As of fiscal year end, USAC had collected $75,000 of the $825,000.) (4) This figure also includes an amount identified from a situation where the FCC and USAC are still determining the way in which the entity should repay the fund. Finally, the FCC and USAC have an ongoing effort to investigate potential eligibility issues in the Lifeline program through a Third Party Identity Verification (TPIV) process; there are no amounts identified for reporting at this time however since this process is still ongoing.

[4] The amount for RHC is $353. The number is too small to appear in the table.

[5] These are amounts paid with the USAC corporate card that were deemed not in compliance with USAC policy. The amounts were taken out of the relevant employees' paychecks.

The Commission reports in Table 5 the disposition of recaptured funds from FY 2016 payment recapture audits.

Table 5
Disposition of Funds Recaptured Through Payment Recapture Audit Programs
($ 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	$1.398	Benefit	$1.398
USF - S&L	$2.100	Benefit	$2.100
USF - LL	$0.285	Benefit	$0.285
USF - RHC	$0.001	Benefit	$0.001
USF-Admin	$0.000	Contract	$0.000
FCC	$0.000	Contract	$0.000
NANP	$0.000	Contract	$0.000
TRS	$0.019	Benefit	$0.019
TOTAL	**$3.803**		**$3.803**

The Commission reports in Table 6 the aging of its outstanding overpayments identified in the payment recapture audits performed in FY 2016.

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	$0.334	$0.000	$0.000	$0.000
USF-S&L	Benefit	$0.294	$4.814	$0.000	$0.000
USF-LL	Benefit	$0.000	$1.653	$0.000	$0.000
USF-RHC	Benefit	$0.072	$0.000	$0.000	$0.000
USF-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	$0.001	N/A	N/A	$0.000
TOTAL		**$0.701**	**$6.467**	**$0.000**	**$0.000**

XI. ADDITIONAL COMMENTS

Not applicable.

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 USF-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	9,113	$149.56	0	$0.00	17	$0.07
Reviews with databases not listed in IPERIA	N/A	N/A	N/A	N/A	N/A	N/A

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 2016:

1. No report submitted for October – no matches identified for this month, so no report was necessary however there were 2 payments that DNP was unable to match.
2. No report submitted for November – no matches identified for this month, so no report was necessary however there were 2 payments that DNP was unable to match.
3. No report submitted for December – no matches identified for this month, so no report was necessary however there were 3 payments that DNP was unable to match.
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 – 1 match was identified on the DMF (Adjudicated in September) also there were 3 payments that DNP was unable to match.
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 however there were 2 payments that DNP was unable to match.
10. No report submitted for July – no matches identified for this month, so no report was necessary however there were 3 payments that DNP was unable to match.

11. No report submitted for August – no matches identified for this month, so no report was necessary however there were 2 payments that DNP was unable to match.
12. Report submitted for September to adjudicate an item match from April; 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.

Every day 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	81,298	$8,881.21	276	$36.84	N/A	N/A

USAC has established policies and procedures related to the Improper Payment Initiative but is currently working with the Commission and the Treasury Department to obtain access to the IPERIA specified databases. However, USAC checks all USF payments against the Commission's Red Light file to prevent improper payments before the release of funds.

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 Welch cannot receive 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	607	$1,031.46	34	$0.13	0	$0.00

RL, the TRS Administrator, plans to integrate Do Not Pay into accounts receivable and accounts payable system modifications. 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 FCC rules.

Office of Inspector General's Management and Performance Challenges

UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: October 20, 2016

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

FROM: Inspector General

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 2016 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 Reports to Congress.

Innovation and Information Security

Over the past two years, the FCC has undertaken significant information technology (IT) initiatives that support the strategic objective to effectively manage the FCC's information technology, financial, and human resources to best achieve the FCC's mission. This objective includes goals for improving systems to make information readily available and upgrade and enhance technology and tools used by Commission staff to carry out the agency's mission. The Commission has made improvements to system availability and performance, and enhanced technologies that offer Commission staff greater flexibility and opportunities for collaboration in accomplishing the mission. While the FCC maintains a focus on upgrades and advancements; challenges in complying with federal mandates, such the Cybersecurity Act of 2015, Digital Accountability and Transparency Act of 2014 (DATA Act), and the Federal Information Security Act (FISMA) persist.

The FCC must ensure that necessary personnel and processes are in place, and they are consistently improving information security controls. The FCC must strike an acceptable balance between the implementation of new technologies and a sustainable information security program that is in compliance with federal mandates. The FY 2016 FISMA evaluation disclosed that the FCC's information security program is still not in compliance FISMA requirements, related OMB guidance, and National Institute of Science and Technology (NIST) standards. As the Commission moves toward greater innovation, additional effort should be placed on addressing prior year IT findings and recommendations. The FY 2016 FISMA report identifies four significant deficiencies– risk management, contractor systems, identify and access management, and information security continuous monitoring– that are repeat or updated findings and recommendations from prior year reviews. We also reported these recommendations as significant open recommendations in our 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. Under the direction of the Commission, the Fund is administered by the Universal Service Administrative Company. The Office of Inspector General has ongoing performance audits and is supporting investigations addressing allegations of fraudulent activity involving the Fund.

Within its strategic objective 3, Making Networks Work for Everyone, FCC has recognized the need to ensure that universal service programs keep up with changing technologies and are well managed, efficient and fiscally responsible. We have observed the Commission's efforts supporting this objective and believe comprehensive reforms in all of the USF programs, including 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 ICC (Intercarrier Compensation) 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, 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 in an efficient and effective manner. Ensuring the reforms have their intended effect and continuing to resolve outstanding investigations remain significant management and performance challenges.

Schools and Libraries Program

In 2015, the Schools and Libraries program, also referred to as E-rate, provided $2.08 billion in support to about 43,000 eligible entities. In 2014, the Commission released two E-rate Modernization Orders. The first Order, which became effective in funding year 2015, adopted three program goals:

- ensure schools and libraries have access to affordable high speed broadband internet services to support digital learning in schools and robust connectivity for all libraries;
- maximize the cost-effectiveness of spending for E-rate supported purchases; and
- ensure the E-rate application process is fast, simple and efficient.

The second E-rate Modernization Order aims to close the connectivity gap by making more funding available for schools and libraries to purchase broadband connectivity capable of delivering gigabit service over the next five years. The Order increased the program funding cap from $2.4 to $3.9 billion, and extended applicant budgets from two years to five years. The order also established a performance management system to evaluate the effectiveness of the modernization orders and identify program improvements.

Recent OIG and USAC audits and investigations identified several risks to the Schools and Libraries program:

- service providers continue to bill the Fund for ineligible services and facilities;
- service providers overcharge for eligible services, including charging schools more than the lowest corresponding price;
- inadequate documentary support for schools and libraries' discount rate;
- inadequate documentation to substantiate compliance with competitive bidding rules when contracting for services; and
- contingent fee arrangements on consultant contracts.

Accomplishing the Commission's strategic objective to ensure that all schools and libraries have affordable access to modern broadband technologies through a well-managed, efficient and fiscally responsible E-rate program is a significant management challenge.

Lifeline Program

The Lifeline program continues to require significant OIG resources– audit and investigative– to combat waste, fraud and abuse. The USF Lifeline program was established in 1985 to ensure that low-income consumers have access to affordable wireline phone service. In 2008, the program was expanded to provide support for wireless phone service. In 2015, the Commission disbursed about $1.5 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 Lifeline program support, many of these reforms have not yet been fully implemented. Moreover, in recent years, 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 several have resulted in guilty pleas. We believe that ensuring Lifeline program reforms have their intended effect and continuing to resolve outstanding investigations remain significant management and performance challenges.

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

Commission's Response to Inspector General's Management and Performance Challenges

Office of the Managing Director

DATE: November 14, 2016

TO: David L. Hunt, Inspector General

FROM: Mark Stephens, Managing Director
Jae Seong, Acting Chief Financial Officer
David Bray, Chief Information Officer

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 20, 2016, assessing the most serious management challenges facing the Federal Communications Commission (FCC or Commission) for fiscal year (FY) 2016 and beyond.

Innovation and Information Security

OIG highlights the significant technological initiatives undertaken by the FCC Information Technology (IT) team over the past year, including improvements to system availability and performance and enhanced technologies that offer Commission staff greater flexibilities and opportunities for collaboration in accomplishing the mission.

Challenges remain, however, concerning compliance with federal mandates, such as the Cybersecurity Act of 2015, Digital Accountability and Transparency Act of 2014 (DATA Act), the Federal Information Security Act (FISMA). For example, the FY 2016 FISMA evaluation disclosed that the FCC's information security program is still not in compliance with FISMA requirements, related Office of Management and Budget (OMB) guidance, and National Institute of Science and Technology (NIST) standards. The Commission while moving towards great innovation has implemented steps towards governance, identifying and mitigating risks and addressing prior year findings. These efforts are summarized below.

Cybersecurity Act: Since 2012, Cybersecurity has been a priority of the White House. This priority was reinforced with the announcement by the President that cybersecurity was now a Cross Agency Priority Goal. The Cybersecurity goal was defined by the following three goals: (1) Information Security Continuous Monitoring (ISCM) – Provide ongoing observation, assessment, analysis, and diagnosis of an organization's cybersecurity; (2) Identity, Credential, and Access Management (ICAM/Strong Authentication) – Implement a set of capabilities that ensures users must authenticate to information technology resources and have access to only those resources that are required for their job function; and (3) Anti-Phishing and Malware Defense (APMD) – Implement technologies, processes, and training that reduces the risk of malware being introduced through email and malicious or compromised web sites.

The FCC has realigned the cybersecurity goals to match those of the Cross Agency Priority goals.

ISCM: In FY 2016, the FCC completed the rollout of its Network Access Control switching technology that blocks unauthorized devices to its headquarter location in Washington DC. The FCC is in the process of rolling it out to its backup location in Gettysburg. The FCC also moved the main data center to a managed service at International Business Machines Corporation (IBM) where vulnerability management and secure configuration will be a service provided by a third party.

ICAM: In FY 2016, the FCC procured CyberArk for Privileged Account Audit and Management. The CyberArk solution will audit the use of FCC network administrator account credentials, as well as, provide audit and reporting functionality, greatly facilitating both for forensic and historical analysis. Additionally, the CyberArk solution will serve as the central tool by which all such privileged accounts will be reset, locked, and managed. The FCC plans that CyberArk will be fully implemented by the middle of fiscal year 2017 for all of its privileged user accounts. In addition, the Commission procured and tested Okta which is a single sign on device which manages passwords for users so that users will be less likely to use insecure means for managing complex passwords. We are also testing the two factor authentication for Okta on application access and will roll it out for limited FCC applications in FY 2017.

APMD: In FY 2016, the FCC has:

- Taken action to ensure that the vast majority of our devices are covered with Antivirus software.

- Deployed FireEye which monitors network traffic for suspicious activity as well as malware.

- Moved the Commission's email to a cloud provider in Microsoft O365, which includes a best practices and filters email. The FCC also deploys Cisco IronPort which takes feeds from security vendors as well as apply heuristics and places suspicious emails in a quarantine for FCC users to examine. These email filters reduce the chance of these emails reaching the FCC user population.

- Implemented sending notifications to employees on phishing scams as well as dedicate a section to the annual user security training on phishing. This additional training will help educate users and hopefully prevent them from falling for such schemes.

- Procured a penetration test and phishing exercise that was run in FY 2016. The phishing exercise allowed the FCC to see how susceptible FCC users are to such an attack. Users that fell for the phishing scheme were notified and sent a follow up training course to alert them of the risks of their actions.

FISMA: OIG recognizes major efforts and improvements to address FCC cybersecurity. With the funds available in 2015, the FCC Chief Information Officer (CIO) led a team focused on improving the Commission's security posture. This initiative reduced agency FISMA findings by 64 percent from FY 2012. Currently, the CIO's FISMA Team is committed to resolving the remaining findings.

In addition to its FISMA findings reduction efforts, the FCC has continued to improve its overall information security program. The Commission improved or maintained its security posture in five of the eight metric domains. The FCC made the most significant progress qualitatively in the area of risk management with the establishment of a formal (IT) risk management and governance program. The FCC has also made progress in obtaining authorizations to operate (ATO) for some major applications.

The FCC has made progress in configuration management, reducing the number of exceptions based on the Department of Homeland Security/ Inspector General (DHSIG) metrics from 50 percent to 30 percent since the FY 2015 FISMA evaluation. Key improvements include scanning of legacy systems and maintaining current configuration information in the configuration management system. The FCC met all of the DHSIG metrics indicating an effective security and privacy training program.

The FCC has also taken actions to strengthen its ISCM program. Key improvements include updating its ISCM strategy and plan and re-instituting security test and evaluation (ST&E) for major systems. In FY 2015, the Commission's FISMA evaluator (Kearney and Company) scored the FCC's Program as a "2: Defined" for all three maturity model areas (People, Processes, and Technology). In FY 2016, Kearney and Company assessed the Technology area as "3: Consistently Implemented." Further, in FY16 FCC's transition of the primary data center to the IBM Federal Data Center has improved the monitoring of the primary network devices.

The remaining FISMA findings are the result of known issues with legacy systems, software, and hardware as well as inefficient governance processes. While the IT team continues to prioritize the resolution of findings, the FCC still seeks additional resources and funding to continue improvements of FCC's Cyber Security posture. Many of the remaining FISMA findings will not be resolved without continued funding for modernization and stabilization efforts to shift away from legacy IT.

With sufficient funding, resources, and time, the Commission will continue to address all weaknesses in its information systems and data stores. Also, the FCC expects upgrades in its systems, along with strengthened processes and oversight, will eliminate a considerable number of the remaining findings. Over time, the FCC will implement augmentations to the FCC network infrastructure and governance processes in order to strengthen the Commission's cyber security posture.

<u>DATA Act Compliance:</u> The FCC has made significant progress towards DATA Act implementation. In particular, the Commission has established a team to take on this effort and has initiated an implementation plan. The FCC is tracking Treasury and Office of Management and Budget (OMB) guidance as it comes out and adjusting its plan accordingly. As the reporting begins in 2017, the FCC expects to demonstrate compliance with the DATA Act and avoid any issues.

Universal Service Programs

OIG has observed that the Commission's efforts supporting the objective to make networks available to everyone and achieve comprehensive Universal Service Fund (USF) program reform require a significant investment of Commission resources. As such, OIG states that establishing direction and policy, managing transition, and ensuring all USF programs rules and regulations contribute to effective and efficient programs is a significant management challenge.

Management concurs with the OIG's assessment and is pleased to report on its continued efforts, summarized below, to combat and resolve this management challenge.

- Completion by the Universal Service Company (USAC) of 158 audits of USF beneficiaries in FY 2016, which is indicative of the heavy emphasis that is placed on resolving management and performance challenges. Of these, approximately $8 million has been identified to be recovered and USAC has initiated recovery efforts on most of these audits and has completed recovery on many of these audits.

- Expansion and intensification of efforts to identify, reduce, and recapture improper payments, consistent with the Improper Payments Elimination and Recovery Improvement Act (IPERIA) and OMB Guidance. First, the Commission expanded the number of procedures assessed as part of USF testing for improper payments. Second, the Commission developed 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.

- In July 2014, the Commission announced the creation of 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. Since its creation, the Strike Force has initiated multiple investigations, brought enforcement actions, negotiated settlements, referred potential USF criminal misconduct to the Department of Justice (DOJ), supported DOJ fraud prosecutions, and coordinated joint activities with the FCC's Inspector General.

- In 2015, USAC undertook an enterprise-wide strategic initiative called the "Circle of Life." The objective of the Circle of Life is to use the information gathered in audits and payment quality assurance reviews to improve the effectiveness of program design and administration. On a quarterly basis, USAC performs a detailed analysis of common findings by program, develops action plans to address the root causes, monitors the progress of the action plans, and identifies methods for determining their effectiveness. Due to the similarities between the root cause action plan process and the Circle of Life initiative, the two efforts have been merged into one continuous, cross-functional process. The USAC website contains individual webpages by program that detail the most common audit findings. Each webpage provides detailed examples and guidance concerning how to address or prevent each finding.

- In October 2016, USAC hired a Director of Compliance and Risk that will manage the compliance and risk team and ensure that USAC implements a robust internal controls process that reviews the various segments of the organization, including program operations to help ensure compliance, as well as efficient and effective management of each of the programs.

<u>High-Cost:</u> In its Memorandum, OIG reports that, "[t]he Connect America Fund will rely on incentive-based, market driven polices, utilizing methodologies such as competitive bidding, to distribute universal service funds in an efficient and effective manner." In doing so, OIG states "ensuring the 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 October 2015, the Commission reminded eligible telecommunications carriers (ETCs) that they may not include certain types of expenses in their revenue requirement or recover them through high-cost support. Those expenses include the following: personal travel; entertainment; alcohol; food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; political contributions; charitable donations; scholarships; penalties or fines for statutory or regulatory violations; penalties or fees for any late payments on debt, loans, or other payments; membership fees and dues in clubs and organizations; sponsorships of conferences or community events; gifts to employees; and, personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages. The Commission also noted that it intends to take further action to prevent excessive expenditures.

- In March 2016, following extensive collaboration with rate-of-return stakeholders, the Commission approved an order establishing a new mechanism for the distribution of support in rate-of-return areas that gives rural carriers two paths, described below, for receiving broadband-oriented support.
    - Under one option, rate-of-return carriers may elect to receive model-based support, calculated using the Alternative Connect America Cost Model (A-CAM), for a term of 10 years in exchange for meeting defined build-out obligations. After conducting a challenge process to eliminate census blocks served by an unsubsidized competitor, the Bureau completed A-CAM and

announced the offer of model-based support on August 3, 2016. Carriers had until November 1, 2016 to indicate, on a state-by-state basis, whether they elect to receive model-based support.

- Rate-of-return carriers also may choose to remain on legacy support, which the Commission modified to provide support in situations where the customer no longer subscribes to traditional regulated local exchange voice service. This "stand-alone broadband" mechanism is known as Connect America Fund Broadband Loop Support (CAF-BLS) and replaces interstate common line support (ICLS). Carriers remaining on legacy support must offer broadband service at actual speeds of at least 10 Mbps downstream/1 Mbps upstream, over a five-year period, to a defined number of unserved locations. Rate-of-return carriers cannot receive CAF-BLS in areas that are served by a qualifying unsubsidized competitor. As part of the reforms to what is now CAF BLS, the Commission also adopted an operating expense limitation and a capital investment allowance. Furthermore, for the purpose of calculating CAF-BLS, the Commission adopted a revenue imputation of $42 per loop per month. The Order further adopted a mechanism for implementing the $2 billion per year budget for rate-of-return carriers and represcribed the authorized rate of return for carriers from 11.25 percent to 9.75 percent.

- In the *Rate-of-Return Reform Order,* the Commission directed USAC to develop an online portal that will enable carriers subject to broadband deployment obligations to submit on a rolling basis the geocoded locations to which they have deployed facilities capable of delivering voice and broadband services meeting the requisite public interest obligations. The portal will provide the Commission, USAC, state commissions and the public with more precisely targeted information to monitor the recipients' progress towards meeting their public interest obligations. The portal is currently under development and the Bureau is in the process of seeking Paperwork Reduction Act approval for the portal.

- In May 2016, the Commission adopted the *Connect America Phase II Order* establishing a framework for the Connect America Phase II auction, which will allow bidders to compete to receive support to offer voice and broadband service to locations in census blocks where price cap carriers declined Phase II model-based support and that remain unserved, and in certain other census blocks nationwide, including those with extremely high deployment costs. Specific details regarding the mechanics of the auction will be determined by the Commission at a future date after further opportunity for comment. In August 2016, the Commission released a list of the census blocks that are preliminarily eligible for the Phase II auction.

- Previously, in July 2014, the Commission adopted the rural broadband experiments and established an objective methodology for selecting projects among formal applications from those carriers that would deploy new, robust broadband to consumers in price cap areas. As of September 2016, the Bureau has authorized almost $37.8 million in rural broadband experiment support for 15 bidders to provide broadband in 15 states.

- On August 31, 2016, the Commission released the *Alaska Plan* adopting an integrated plan to address both fixed and mobile voice and broadband service in high-cost areas of the state of Alaska, building on a proposal submitted by the Alaska Telephone Association. Specifically, the Commission provided a one-time opportunity for Alaskan rate-of-return carriers to elect to receive support frozen at adjusted 2011 levels for a 10-year term. Alaskan rate-of-return carriers that elect Alaska Plan support must meet individualized performance obligations by offering voice and broadband services that meet the service obligations the Commission adopts in the Order, including specified minimum speeds, by five-year and 10-year service milestones to a specified number of locations. Rate-of-return carriers in Alaska also have the option of remaining on reformed legacy mechanisms or accepting the offer of A-CAM support discussed above.

- The Alaska Plan also includes a consensus plan among the mobile providers in remote areas of Alaska that provides predictable, stable support to those providers, frozen at 2014 levels for a term of 10 years. As in the Alaska Plan for rate-of-return carriers, the Commission provided a one-time opportunity for Alaskan competitive ETCs to elect to participate in the Alaska Plan for mobile carriers. Those competitive ETCs that participate will be required to meet individualized performance plans that include mobile broadband service at specified minimum speeds to a certain percentage of the eligible population. Eligible competitive ETCs who elect not to participate in the Alaska Plan or who are participants in the plan but serve non-remote areas will have that support phased out over a period of three years, as proposed by the Alaska Telephone Association (ATA), unless otherwise specified in the order. The Commission also adopted a reverse auction where any competitive ETC can bid to receive annual support to extend service to remote areas in Alaska that are unserved by a mobile carrier as of December 31, 2014. The Commission also sought comment about how best to eliminate potential duplicative support that may arise during the course of the plan.

- On October 24, 2016, the Commission adopted tailored service obligations for Alaska Communications Systems (ACS), a price cap carrier serving a non-contiguous area in Alaska. ACS elected to receive nearly $20 million annually for a 10-year term and is required to offer voice service and broadband service at the same speed, latency, usage and pricing metrics as established for Phase II model-based carriers to at least 31,571 locations, primarily in census blocks identified as high-cost that are unserved by unsubsidized competitors. The Commission allowed ACS the flexibility to deploy to up to 7,900 locations in "partially served census blocks," subject to a challenge process. The Commission also allowed ACS the flexibility to count towards its service obligation up to 2,714 locations in census blocks identified by the model as low-cost, so long as those locations are unserved with broadband by either ACS or a competitor, the "low-cost" census block is immediately adjacent to high-cost census blocks, and ACS can certify that the capex cost to build to the location is at least $5,000.

- The Commission continues to implement 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 Phase I 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 Wireless Telecommunications and Wireline Competition Bureaus have authorized initial disbursements for over $270 million in winning bids, and announced over $29 million in auction defaults. Of the authorized winning bids, eight winning bidders subsequently defaulted on their performance obligations for bids totaling over $63 million.

- The Commission set aside $50 million in one-time (Phase I) support to accelerate immediate deployment of networks for mobile voice and broadband services in unserved Tribal land areas to be awarded through a separate complementary one-time Tribal Mobility Fund Phase I auction. This auction, designated Auction 902, was completed on February 25, 2014. 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 to provide 3G or better mobile voice and broadband services covering a population of 56,932 in 80 biddable areas. These areas include 18 biddable areas on five Reservations or Tribal lands in Arizona, Montana, New Mexico, and Utah; and 62 biddable areas in 49 Alaska Native Village Statistical Areas and 13 bidding areas otherwise in Alaska Native Regions. $49,806,874 in support has been authorized.

- 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 provide important developments from FCC Orders, industry highlights, 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, frequently asked questions (FAQs), and user guides to help beneficiaries with Form 481 and 690 compliance.

- USAC created 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 address the top audit findings and provide preventive measures and resources so that beneficiaries can avoid these audit findings.

<u>Schools and Libraries Program:</u> In its Memorandum, OIG references the achievements of the two *E-Rate Modernization Orders*, including goals for ensuring access to affordable high speed broadband internet services and closing the connectivity gap for schools and libraries. OIG also emphasizes risks identified in recent OIG and USAC audits, which include:

- Service providers continue to bill the Fund for ineligible services and facilities;

- Service providers overcharge for eligible services, including charging schools more than the lowest corresponding price;

- Inadequate documentary support for schools and libraries' discount rate;

- Inadequate documentation to substantiate compliance with competitive bidding rules when contracting for services; and

- Contingent fee arrangements on consultant contracts.

OIG, therefore, states that "accomplishing the Commission's strategic objective to ensure that all schools and libraries have affordable access to modern broadband technologies through a well-managed, efficient and fiscally responsible E-rate program is 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.

Service providers continue to bill the USF for ineligible services and facilities.

- The Commission continues to oversee USAC's processes for application forms and the E-rate application review system, as USAC continues to develop its technology for application intake and review to support a more fully-automated system. The forms to request bids and seek support for services (FCC Forms 470 and 471) have been redesigned to minimize applicant mistakes and increase automation. For example, the forms contain drop-down menus that require applicants to select from lists of products and services that are eligible. Limiting applicants to selecting only eligible services and products sends a clearer signal to potential bidders (service providers) that the applicant is seeking only eligible services and products. This also serves to reduce applicants' error of requesting ineligible products and services in the first instance. Also, pursuant to changes the Commission made to the list of eligible services (Eligible Services List or ESL) in the *First E-rate Modernization Order*, the Commission streamlined the ESL for funding year 2015 and continues to provide additional clarity for applicants and service providers through the annual ESL public notice which culminates in an order describing eligibility changes for the upcoming funding year.

- The Commission works with USAC on outreach activities designed to help participants successfully participate in the program and reduce the potential for errors and improper payments. USAC maintains a comprehensive outreach strategy designed to instruct schools, libraries and service providers on the E-rate rules, including rules related to eligible services. In addition to webinars, USAC conducts multiple annual in-person trainings for applicants and at least two service provider specific trainings which include slide decks on eligible services, competitive bidding and other core E-rate requirements. USAC also conducts regular calls with E-rate stakeholders to educate participants on their compliance obligations, including the obligation to remove ineligible services from funding requests and invoices. Additional outreach efforts include USAC's weekly News Briefs educating applicants and service providers on program rules and procedures and Special News Briefs to address major changes.

- The E-rate program, consistent with the *First E-rate Modernization Order*, continues its transition to all-electronic filing. USAC worked with Commission staff to revise the forms that E-rate applicants and service providers use for invoicing and service providers and applicants are now required to fill out their invoicing forms online. Prior to funding year 2016 (beginning July 1, 2016), service providers were permitted to file their E-rate invoices on paper. Requiring service providers to file invoices online serves as an additional check on service providers that would otherwise attempt to bill for ineligible services and should increase visibility for USAC reviewers.

- Beginning July 1, 2016, applicants may receive direct reimbursement for committed funds. In the *First E-rate Modernization Order*, the Commission adopted new rules to implement this change so that when applicants seek direct reimbursement, their service providers no longer serve as the pass-through for payments and do not approve the form used by applicants for these purposes (FCC Form 472). At the same time, service providers must annually submit a certification form to attest that the invoices submitted through the E-rate program comply with the Commission rules. Because service providers would no longer be signing off on the FCC Form 472, the Commission changed its rules in the *First E-rate Modernization Order* to require that certifications be added to the service provider certification form (FCC Form 473) requiring each service provider to certify that they have complied with the E-rate invoicing rules and regulations. In addition to the existing certifications, each service provider now also needs to certify: (1) the invoices it submits to the billed entity for reimbursement (BEAR) pursuant to the FCC Form 472 are accurate and represent payments from the billed entity to the service provider for equipment and services provided pursuant to E-rate program rules; and (2) the bills or invoices it issues to the billed entity are for equipment and services eligible for universal service support by the fund administrator, and exclude any charges previously invoiced to the administrator by the service provider.

- Because applicants may now seek direct reimbursement for invoices, USAC revised its invoice review procedures to confirm invoice accuracy prior to payment. USAC now conducts additional reviews to verify that the eligible goods and services were delivered for BEAR invoices that otherwise would have passed the normal review process for payment. USAC expects to conduct service check reviews on 1,800 BEAR invoices per calendar year.

Service providers overcharge for eligible services, including charges more than the lowest corresponding price.

- The Commission reminded service providers of their lowest corresponding price (LCP) obligation in the *First E-rate Modernization Order.* In the order, service providers were instructed that they not only must charge applicants the LCP when providing E-rate services, but they must also offer the lowest corresponding price when submitting competitive bids to provide E-rate supported services.

- In the *First E-rate Modernization Order*, the Commission implemented pricing transparency, determining that pricing data, including information about the line item costs of specific services and equipment, should be publicly available. Through pricing transparency, an applicant can compare the cost it pays for services with the cost paid by other applicants in its area for the same services and will be on notice if its service providers are overcharging for services and facilities.

- The Commission's LCP rule helps ensure that schools and libraries that participate in the FCC's E-rate Program get the best rates available by prohibiting E-rate service providers from charging them more than the lowest price paid by other similarly situated customers for similar telecommunications services. On July 27, 2016, the Commission proposed to fine AT&T $106,425 for charging two Florida school districts some of the highest telecommunications rates in the state, in apparent violation of the LCP rule. The Commission alleges that AT&T charged the school districts prices for telephone service that were magnitudes higher than many other customers in Florida. One or both school districts paid the highest price in all of Florida for one service, while other customers paid much less.

Inadequate documentary support for the discount rate and compliance with competitive bidding rules.

- The Commission adopted district-wide discount rates in the *First E-rate Modernization Order*, 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. The Commission's *Second 2014 E-rate Modernization Order* directed USAC 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, among other things, 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. Further enhancements of this part of the E-rate application process are under development. However, applicants do currently file discount rate information in USAC's portal as part of their applicant profile. USAC's online portal enables the retention of user information, including applicant discount information, year-to-year, to help reduce or prevent user error. The system and applicant funding request forms also have built in logic designed to prevent entry of inaccurate information. To the extent inaccurate information is presented, applicants have the opportunity to provide a true-up of the information. Applicant discount and entity information is checked against related applications for consistency and reviewed as part of USAC's program integrity assurance program.

- The Commission continues to consult and oversee USAC's improvements to USAC's online form intake and application processing systems. One of the changes made to USAC's intake is that applicants may, and in some cases will be required to, upload their Requests for Proposals directly into the system (via the FCC Form 470). There is also a contract upload tool that is part of the applicant profile so that contract documents are readily available for program integrity assurance review. These changes help facilitate USAC's determination of whether an applicant has complied with competitive bidding on other Commission rules.

- In December 2015, the Commission's Enforcement Bureau, led by the USF Strike Force, reached a settlement with the New York City Department of Education (NYC DOE), the nation's largest school district, regarding allegations of competitive bidding violations stemming from NYC DOE's involvement in the USF E-rate Program. The NYC DOE settlement was the largest resolution of a USF E-rate Program investigation in the FCC's history. As part of the consent decree, NYC DOE relinquished claims to its requested USF E-rate funds, paid a $3 million fine, and was required to appoint an independent compliance monitor.

- To continue to simplify the E-rate program application process, the Commission adopted the use of district-wide discount rates. In addition, the E-rate Productivity center (EPC) was designed to calculate the applicant's discount rate based on the National School Lunch Program (NSLP) data and total student count, and to apply this discount rate to all applications tied to that applicant. This ensures the discount calculation is accurate and is used across all E-rate funding applications associated with that applicant. Further, applicants can store their discount rate support documentation within EPC so that the documentation is retained and is easily accessible.

Contingent fee arrangements on consultant contracts.

- The Commission understands that applicants are free to hire consultants to help them with the E-rate application process; however, the program does not provide discounts for any type of consultant fees (*i.e*., consultant fees are not eligible for E-rate funding). The program is also set up in ways that limit consultants from acting on behalf of applicants for certain activities. For example, in the *First E-rate Modernization Order*, the Commission made it clear that while applicants would be able to receive direct reimbursement beginning July 1, 2016, USAC is not permitted to reimburse applicants through consultants, but can only make such payments directly to schools or libraries.

Additional related initiatives.

- To implement the performance goals set forth by the Commission in the two *E-rate Modernization Orders*, USAC developed the EPC to streamline and simplify the E-rate program application process as well as to provide a repository to store E-rate program-related documentation. In addition, the online forms for the E-rate program were modified to collect additional data and pricing on the supported broadband services in order to provide schools and libraries with data to allow them to select cost-effective services. The revised online new forms and the creation of EPC are significant steps for both simplifying the E-rate application process and for ensuring schools and libraries have access to affordable high speed broadband services.

- USAC conducts extensive outreach activities to help participants successfully participate in the E-rate program. USAC hired a Director of Stakeholder Engagement for the E-rate program to ensure that the outreach efforts address issues identified through application reviews, invoice processing, and audits with the goal of increasing participants' knowledge of and compliance with program rules. Specifically, USAC conducts applicant and service provider E-rate program trainings in the form of video-conferences, as well as in-person trainings, and conducts monthly E-rate stakeholder conference calls. In addition, outreach materials are published in the form of electronic and printed materials, including a weekly News Brief, which are provided to applicants and service providers and are posted to USAC's website along with online learning tools. 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. The PIA procedures are reviewed annually by USAC and the Commission to improve and simplify 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.

- In an effort to prevent and detect improper payments, USAC conducts manual reviews for over 50 percent 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 addition, USAC also conducts post-disbursement reviews of the invoices that undergo pre-disbursement automated reviews to detect improper payments. The post-disbursement review process obtains support for the requested reimbursement and verifies payments were properly issued for eligible services and equipment.

Lifeline: In its Memorandum, OIG states the Lifeline program continues to require significant OIG resources-audit and investigative-to combat waste, fraud and abuse. Further, despite the Commission's comprehensive reform to the program over the past several years, these reforms have yet to be fully implemented. OIG also raises concern of increases in fraud reports over the past few years and criminal cases concerning the Lifeline program. As such, OIG emphasizes that ensuring Lifeline program 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.

- In June 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, "*2015/2016 Lifeline Orders*") which requires 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. Further, the Commission adopted a snapshot date rule requiring Lifeline providers to calculate the number of subscribers it is providing Lifeline service based on the first day of the month and must retain the information for their record. This enables USAC to compare the number of subscribers served on the snapshot date to the subscribers included within the National Lifeline Accountability Database (NLAD) to determine whether there are discrepancies. If so, USAC can investigate further.

- In March 2016, the Commission modernized the Lifeline program by extending support for broadband services, adopted minimum service standards for Lifeline supported services, and adopted major reforms to protect the Fund from waste, fraud and abuse. As an example, the Commission shortened its non-usage rule that requires service providers to de-enroll subscribers who do not have a monthly fee for non-usage from 60 days to 30 days. As another reform, the Commission directed USAC, in coordination with the FCC, to implement a national verification system for consumer eligibility in the Lifeline program (National Verifier). To streamline the eligibility process and properly align incentives with the goals of the Lifeline program by removing the responsibility of conducting the eligibility determination from the providers, the Commission directed USAC to implement the National Verifier. The FCC is working closely with USAC to create the National Verifier. It will be deployed in phases with at least five states/territories being launched by the end of 2017, an additional 20 states/territories launched in 2018, and the remaining states/territories by the end of 2019. USAC must submit a comprehensive draft plan for the National Verifier to the Wireline Competition Bureau on November 30, 2016, for review and approval. Once approved, the plan will be released to the public. Throughout the development and implementation of the National Verifier, USAC will provide a status update to the FCC twice per year.

- In light of the Commission's actions to create a broadband-centered Lifeline program, it also took steps to revise program goals and directed USAC to conduct a complete program evaluation through an independent third-party evaluator. First, the FCC explicitly included affordability of voice and broadband service as a component of the program goals. To measure progress towards that goal component, the Commission directed the Wireline Competition Bureau to measure the extent to which voice and broadband service expenditures exceed two percent of low income consumers' disposable household income as compared to the next highest income group. The results of such measurements will be published in the annual Universal Service Monitoring Report. Second, the Commission directed USAC to hire an outside, independent third-party evaluator to complete a program evaluation of the Lifeline program's design, function and administration. USAC must submit the findings to the Commission by December 31, 2020, which will be made public to the extent not otherwise precluded by law.

- 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 approximately \$1.5 billion in 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 Enforcement Bureau has undertaken several investigations involving carrier compliance with federal Lifeline program rules.

    - In July 2016, EB entered into a consent decree with Blue Jay Wireless, an ETC, to resolve an investigation concerning the enrollment of Tribal subscribers in the state of Hawaii. The USF Strike Force led the investigation, which determined that Blue Jay Wireless received enhanced Lifeline support for thousands of Hawaiian residents who did not reside on Hawaiian Home Lands and thus were not eligible for Tribal support. As part of the settlement, Blue Jay Wireless agreed to reimburse the Universal Service Fund more than \$2 million and enter into a compliance plan.

    - On April 7, 2016, the Commission released a Notice of Apparent Liability for Forfeiture (NAL) against Total Call Mobile, Inc., (TCM) proposing a forfeiture of over \$51 million for violations of the FCC's Lifeline rules. The Commission found that the company enrolled tens of thousands of duplicate and ineligible consumers as a result of systemic and egregious misconduct by sales agents. The investigation was led by the USF Strike Force and represented the largest proposed fine in the history of the Lifeline program. The NAL also ordered TCM to explain: (1) why the Commission should not order USAC to suspend all of the company's Lifeline reimbursements, (2) why the Commission should not revoke approval of the company's compliance plan, and (3) why the Commission should not initiate proceedings to revoke the company's Commission-approved authorizations. On June 22, 2016, WCB directed USAC to issue a temporary hold of Lifeline payments to TCM pending TCM's complete response to WCB's questions and WCB's assessment of TCM's response. TCM has replied to the NAL and the Enforcement Bureau is reviewing that response.

- 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. USAC is also conducting additional data reviews of NLAD where multiple subscribers reside at a single address that does not appear to be associated with a group housing facility (*e.g*., homeless shelters).

- 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 also performed a review of carriers who have entered phone numbers in NLAD that are not consistent with acceptable North American Numbering Plan formats and notified carriers where such records appeared to be incorrectly entered into NLAD. USAC continues to seek opportunities to enhance NLAD's system controls, including enhancing system controls to prevent and detect duplicate subscribers. USAC improved the NLAD system on February 2, 2015 to eliminate certain initiated dispute resolution processes and on March 25, 2015 to add additional rigor to the duplicate checking algorithm in NLAD. Upon the implementation of these changes USAC scrubbed all NLAD records to identify and remove additional duplicates. This process was completed in May 2015 and resulted in the de-enrollment of approximately 374,000 subscribers.

- Currently, USAC educates carriers on Lifeline program rules through the following:

  - Monthly webinars for NLAD users.

  - Bi-weekly 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.

  - Participation in relevant conferences or industry events.

- 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 bi-weekly 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.

- USAC is taking steps to modify processes and procedures associated with the *2015/2016 Lifeline Orders*, which will significantly improve the integrity of the program. These changes include requiring:

    - Carriers, as of February 2016, to retain eligibility documentation. USAC is updating its audit processes to perform additional testing on this retained documentation for more robust checking of appropriate carrier practices around eligibility verification.

    - Carriers to claim subscribers using a uniform snapshot date on the 1st of each month. USAC is updating its reporting tools to perform comparisons of carrier claims on the FCC Form 497 to the corresponding count of subscribers in NLAD and follow up on prioritized variances.

    - USAC to stand up the National Verifier, transitioning the responsibility of eligibility determination from carriers to USAC. USAC is preparing the draft National Verifier Plan due to the FCC on November 30, 2016, which will detail the processes, systems, and staff required to stand up and operate the National Verifier, as well as provide a project plan and timeline for successful implementation.

Conclusion. 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.

Mark Stephens
Managing Director
Office of the Managing Director

Jae Seong, Acting Chief Financial Officer
Office of the Managing Director

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

Schedule of Civil Monetary Penalties

On November 2, 2015, the President signed the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 ("the 2015 Act"), which was included as Section 701 of the Bipartisan Budget Act of 2015. The 2015 Act amended the Federal Civil Penalties Inflation Adjustment Act of 1990 to improve the effectiveness of civil monetary penalties and to maintain their deterrent effect.

The 2015 Act requires agencies to: 1) use an interim final rulemaking (IFR) to adjust the level of civil monetary penalties in 2016 with an initial "catch-up" adjustment, 2) continue to make annual inflation adjustments in future years, and 3) report on these adjustments annually. Per the 2015 Act, agencies are required to publish IFRs with new penalty levels in the Federal Register by no later than July 1, 2016, and for these penalties to take effect no later than August 1, 2016.

On February 24, 2016, OMB provided implementation guidance to agencies through OMB Memorandum M-16-06, Implementation of the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015. On March 22, 2016, OMB instructed agencies to collect information on their catch-up adjustments through Budget Data Request (BDR) 16-25, 2016 Civil Monetary Penalty Adjustments for Inflation.

On June 9, 2016, the Enforcement Bureau of the Federal Communications Commission adopted and released an order on delegated authority, DA 16-644, which adjusts the Commission's forfeiture penalties for inflation. According to the 2015 Inflation Adjustment Act, which amended the Federal Civil Penalties Inflation Adjustment Act of 1990 (Pub. L. 101-410), the initial inflation adjustment will be the percentage by which the Consumer Price Index (CPI) for the month of October 2015 exceeds the CPI for the month of October of the calendar year during which the civil monetary penalty "was established or adjusted under a provision of law other than this Act." The Commission's Order follows OMB's guidance to agencies on implementing the Act. Pursuant to the 2015 Inflation Adjustment Act, the Commission updated the civil monetary penalties set forth in the Communications Act of 1934, as amended (Communications Act or Act), to reflect an "inflation adjustment" that derives from the "cost-of-living adjustment." The cost-of-living adjustment reflects the total inflation that has taken place in the years since the penalties were last set or adjusted by statute or rule.

The following table shows various Civil Monetary Penalties that may be used by the Commission in carrying out its mission and where additional details on those penalties can be found.

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest year of adjustment (via statute or regulation)	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
Communications Act of 1934, as amended	Willful or Repeated Violation	1954 - 2010	2016	$3,300,000 - $110	Enforcement Bureau (EB)	Federal Register 85 (30 June 2016): 42554-01. https://apps.fcc.gov/edocs_public/attachmatch/DA-16-644A1.pdf
47 U.S.C. 202 (c)	Discrimination	1989	2016	$11,362 $568/day	EB	Same as above
47 U.S.C. 203 (e)	Schedules of Charges	1989	2016	$11,362 $568/day	EB	Same as above
47 U.S.C. 205 (b)	Commission Charges	1989	2016	$22,723	EB	Same as above
47 U.S.C. 214 (d)	Extension of lines	1989	2016	$2,272	EB	Same as above
47 U.S.C. 219 (b)	Annual Report	1989	2016	$2,272	EB	Same as above
47 U.S.C. 220 (d)	Failure to maintain records	1989	2016	$11,362	EB	Same as above

47 U.S.C. 223 (b)	Obscene/ harassing telephone calls	1983	2016	$117,742	EB	Same as above
47 U.S.C. 227 (e)	Telephone equipment restrictions	2010	2016	$10,874/violation $32,622/day for each day of continuing violation up to $1,087,450 for any single act or failure to act	EB	Same as above
47 U.S.C. 364 (a)	Radio on board ships - Forfeitures	1989	2016	$9,468	EB	Same as above
47 U.S.C. 364 (b)	Radio on board ships - Forfeitures	1989	2016	$1,894	EB	Same as above
47 U.S.C. 386 (a)	Radio on board ships - Forfeitures	1989	2016	$9,468	EB	Same as above
47 U.S.C. 386 (b)	Radio on board ships - Forfeitures	1989	2016	$1,894	EB	Same as above
47 U.S.C. 503 (b)(2)(A)	Penalty provisions	1989	2016	$47,340/violation or each day of a continuing violation up to $473,402 for any single act or failure to act	EB	Same as above
47 U.S.C. 503 (b)(2)(B)	Penalty provisions	1989	2016	$189,361/violation or each day of a continuing violation up to $1,893,610 for any single act or failure to act	EB	Same as above
47 U.S.C. 503 (b)(2)(C)	Penalty provisions	2006	2016	$383,038/violation or each day of a continuing violation up to $3,535,740 for any single act or failure to act	EB	Same as above
47 U.S.C. 503(b)(2)(D)	Penalty provisions	1989	2016	$18,936/violation or each day of a continuing violation up to $142,021 for any single act or failure to act	EB	Same as above
47 U.S.C. 503(b)(2)(F)	Penalty provisions	2010	2016	$108,745/violation or each day of a continuing violation up to $1,087,450 for any single act or failure to act	EB	Same as above
47 U.S.C. 507 (a)	Payment disclosure	1954	2016	$1,875	EB	Same as above
47 U.S.C. 507 (b)	Payment disclosure	1954	2016	$275	EB	Same as above
47 U.S.C. 554(f)	Equal employment opportunity	1992	2016	$839	EB	Same as above