

FEDERAL COMMUNICATIONS COMMISSION



Agency Financial Report

Fiscal Year 2017

(October 1, 2016 – September 30, 2017)

Table of Contents

1. Management’s Discussion and Analysis (Unaudited).....	1
Overview of the Federal Communications Commission.....	1
Introduction	1
About the Federal Communications Commission.....	1
Senior Leadership.....	2
Mission.....	3
Vision Statement	3
Organizational Structure	3
The Bureaus	3
The Offices.....	4
Organizational Chart	5
Map of FCC Enforcement Bureau’s Field Offices.....	6
Strategic Goals and Objectives	6
Strategies & Resources to Achieve Goals.....	7
Components of the FCC for Financial Statements Purposes.....	7
Eliminating and Recovering Improper Payments	9
Performance Highlights.....	10
Overall Status of Audit Recommendations	17
Management Assurances	18
Financial Management Systems Strategy.....	20
Financial Discussion and Analysis	21
Other Key Financial Statement Highlights.....	28
2. Financial Statements and Auditor’s Report.....	29
Transmittal from Office of Inspector General	29
Independent Auditor’s Report	31
Independent Auditor’s Report on Internal Control over Financial Reporting.....	34
Independent Auditor’s Report on Compliance with Applicable Provisions of Laws and Regulations..	39
Commission’s Response to Independent Auditor’s Reports	41
Principal Statements	43
Consolidated Balance Sheet	43
Consolidated Statement of Net Cost	44
Consolidated Statement of Changes in Net Position.....	45
Combined Statement of Budgetary Resources.....	46
Consolidated Statement of Custodial Activity.....	47
Notes to the Principal Financial Statements	48
Required Supplementary Information	70

3. Other Information (unaudited)	73
Summary of Financial Statement Audit	73
Summary of Management Assurances	73
Payment Integrity	74
Other Agency-Specific Statutorily Required Reports	87
Office of Inspector General’s Management and Performance Challenges.....	90
Commission’s Response to Inspector General’s Management and Performance Challenges.....	94

1. MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)

Overview of the Federal Communications Commission

Introduction

Office of Management and Budget (OMB) Circular No. A-136, released on August 15, 2017, 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) 2017 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 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 vision statement, organizational structure, organizational chart, map of field offices, strategic goals and objectives, strategies and resources to achieve goals, components for financial statement purposes, eliminating and recovering improper payments, performance highlights, overall status of audit recommendations, management assurances, financial management systems strategy, financial discussion and analysis, and other key financial statement analysis.

Section 2 contains the Commission’s financial information. 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, fraud reduction report, 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 FCC is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The Commission also regulates telecommunications and advanced communication services and video programming for people with disabilities, as set forth in various sections of the Communications Act.

The Commission’s headquarters is located in Washington, D.C. It has 13 field offices throughout the nation, including three regional offices.

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 reduced the number of field locations from 24 to 13, consolidated staff in three of the remaining offices into nearby FCC-owned locations, and made various other management and policy changes, including updating field equipment and requiring all field agents to be electrical engineers. In FY 2017, the Commission completed the implementation of the Order adopted in FY 2015.

Senior Leadership

The FCC is directed by five Commissioners 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 Ajit Pai
- Commissioner Mignon Clyburn
- Commissioner Michael O’Rielly
- Commissioner Brendan Carr
- Commissioner Jessica Rosenworcel



Pictured from left to right are Commissioner Brendan Carr, Commissioner Mignon Clyburn, Chairman Ajit Pai, Commissioner Michael O’Rielly, and Commissioner Jessica Rosenworcel.

Mission

As specified in section one of the Communications Act of 1934, as amended, 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, rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges."¹ In addition, section one 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 communications."²

Vision Statement

The FCC's vision is to develop a regulatory environment to encourage the private sector to build, maintain, and upgrade next-generation networks so that the benefits of advanced communications services are available to all Americans. The FCC will work to foster a competitive, dynamic and innovative market for communications services through policies that promote the introduction of new technologies and services and ensure that Commission actions promote entrepreneurship and remove barriers to entry and investment. The Commission will also strive to develop policies that promote the public interest, improve the quality of communications services available to those with disabilities, and protect public safety.

Organizational Structure

In order to accomplish its strategic plan, the FCC is organized by function. There are seven Bureaus and ten Offices. The Bureaus and the Office of Engineering and Technology process applications for licenses to operate facilities and provide communication services, analyze complaints from consumers and other licensees, conduct investigations, develop and implement regulatory programs, and participate in hearings and workshops. Generally, the Offices provide specialized support services. The 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 consumer policies, including those for people with disabilities and those affecting tribal nations. The Bureau serves as the public face of the Commission through outreach and education, as well as responding to consumer inquiries and informal complaints. The Bureau also maintains collaborative partnerships with state, local, and tribal governments in such critical areas as emergency preparedness and implementation of new technologies.
- **The Enforcement Bureau** enforces the Communications Act and the FCC's rules. It protects consumers, ensures efficient use of spectrum, furthers public safety, promotes competition, and protects the integrity of FCC programs and activities from fraud, waste, and abuse.
- **The International Bureau** administers the FCC's international telecommunications and satellite programs and policies, including licensing and regulatory functions. The Bureau promotes pro-competitive policies abroad, coordinating the FCC's global spectrum activities, and advocating U.S. interests in international communications and competition. The Bureau works to promote a high-quality, reliable, globally interconnected, and interoperable communications infrastructure.
- **The Media Bureau** recommends, develops, and administers the policy and licensing programs relating to electronic media, including broadcast, cable, and satellite television in the United States and its territories.

¹ 47 U.S.C. § 151.

² *Id.*

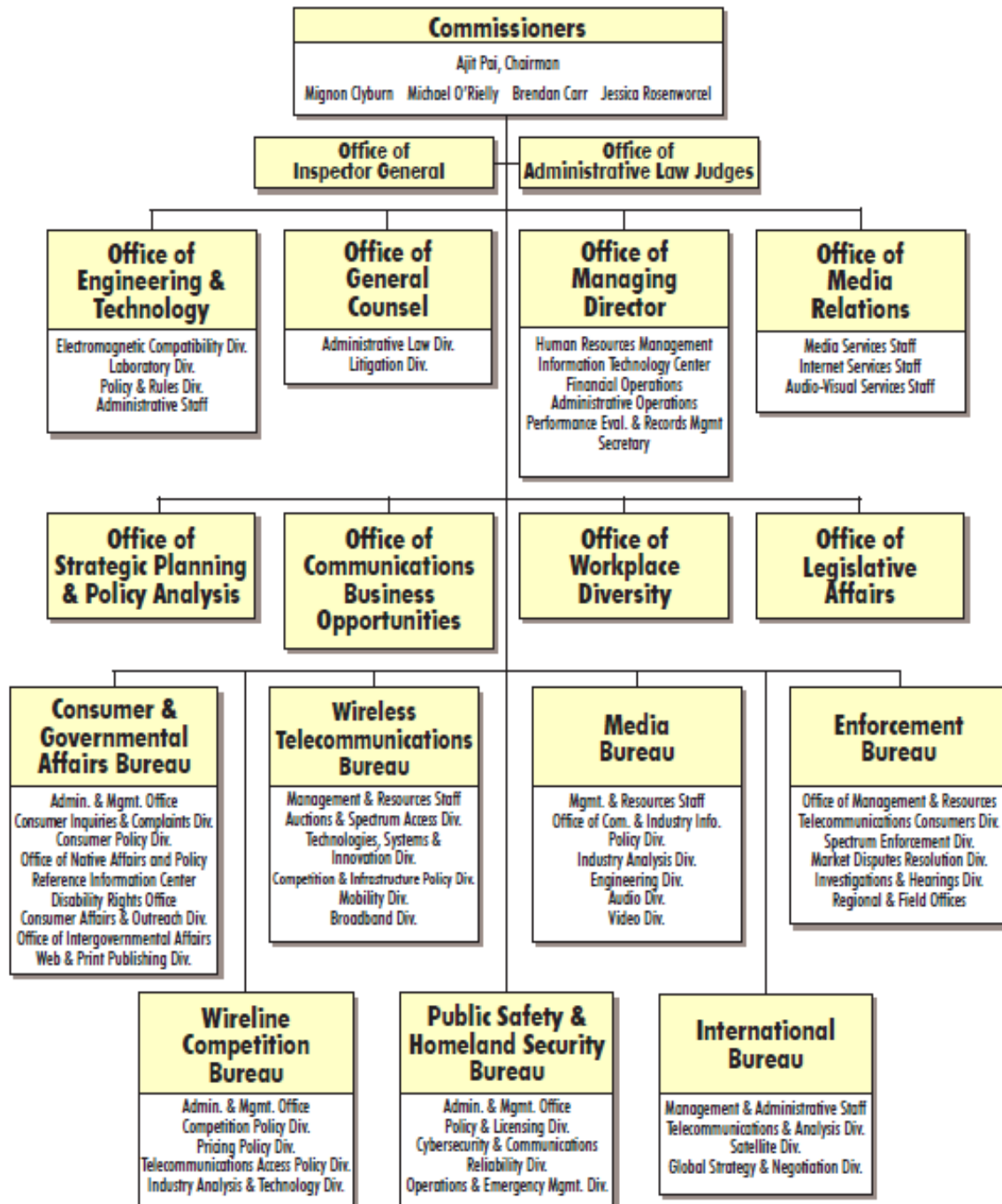
- **The Public Safety and Homeland Security Bureau** develops and implements policies and programs to strengthen public safety communications capabilities that assist the public, first responders, the communications industry, and all levels of government in preparing for and responding to emergencies and major disasters.
- **The Wireless Telecommunications Bureau** is responsible for wireless telecommunications programs and policies in the United States and its territories, including licensing and regulatory functions. Wireless communications services include cellular, paging, personal communications, and other radio services used by businesses and private citizens. The Bureau also conducts auctions of spectrum licenses and reverse auctions that award support from the Universal Service Fund for broadband deployment.
- **The Wireline Competition Bureau** develops, recommends, and implements policies and programs for wireline telecommunications, including fixed (as opposed to mobile) broadband and telephone landlines, striving to promote the widespread development and availability of these services as well as more options for consumers. The Bureau has particular responsibility for the Universal Service Fund which helps connect all Americans to communications networks.

The Offices

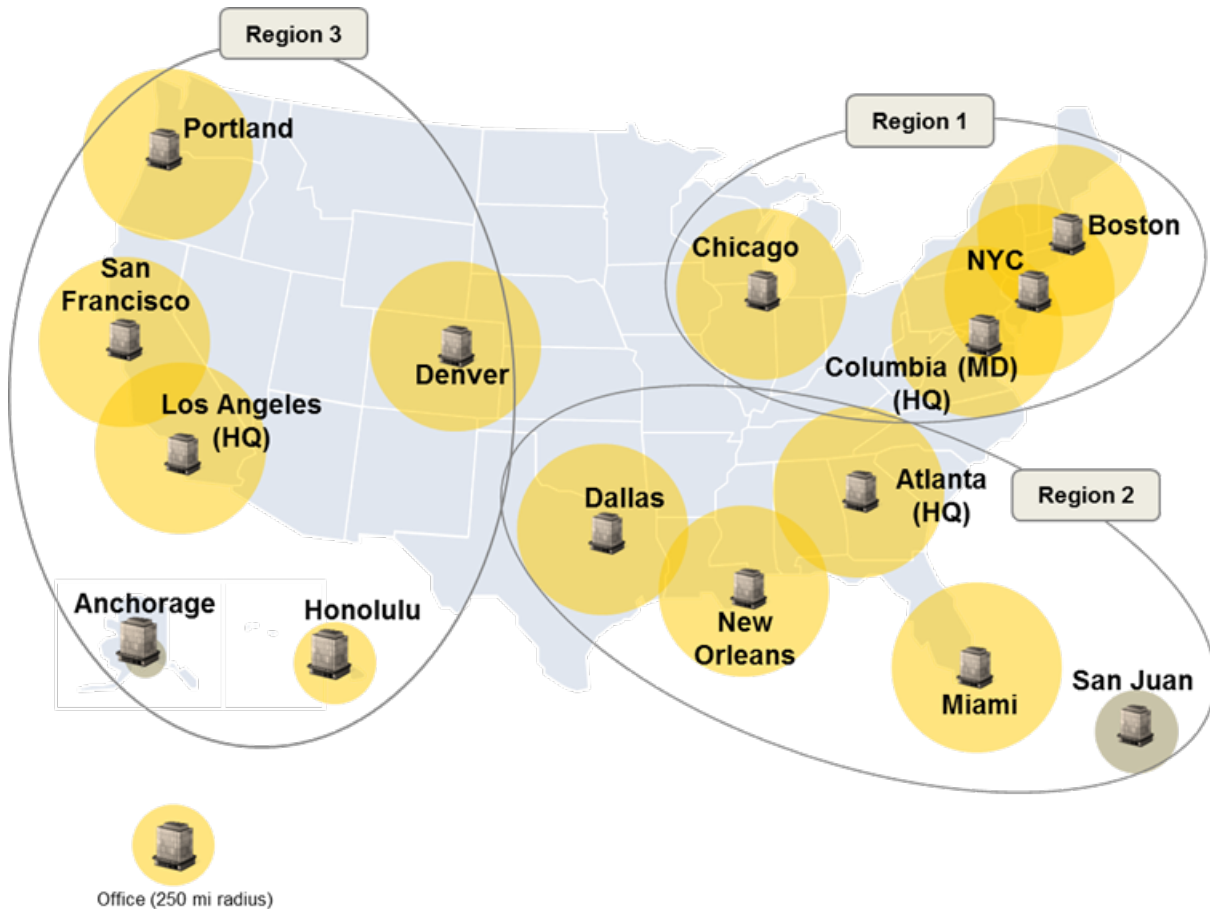
- **The Office of Administrative Law Judges** is composed of one judge (and associated staff) who presides over hearings and issues decisions on matters referred by the FCC.
- **The Office of Communications Business Opportunities** promotes competition and innovation in the provision and ownership of telecommunications services by supporting opportunities for small businesses as well as women and minority-owned communications businesses.
- **The Office of Engineering and Technology** advises the FCC on technical and engineering matters. This Office develops and administers FCC decisions regarding spectrum allocations and grants equipment authorizations and experimental licenses.
- **The Office of General Counsel** serves as the FCC's chief legal advisor.
- **The Office of Inspector General** conducts and supervises audits and investigations relating to FCC programs and operations.
- **The Office of Legislative Affairs** serves as the liaison between the FCC and Congress, as well as other Federal agencies.
- **The Office of Managing Director** administers and manages the FCC.
- **The Office of Media Relations** informs the media of FCC decisions and serves as the FCC's main point of contact with the media.
- **The Office of Strategic Planning and Policy Analysis** works with the Chairman, Commissioners, Bureaus, and Offices in strategic planning and policy development for the agency. It also provides research, advice, and analysis of complex, novel, and non-traditional economic and technological 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



The San Juan and Anchorage offices are not manned by Full-Time Equivalents (FTEs) on a regular basis.

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; work to ensure the universal availability of broadband and telecommunications service; attempt to make communications services accessible to all people; and protect and empower consumers in the communications marketplace.

The FCC's FY 2017 Agency Financial Report reflects the strategic and performance goals included in the FCC's FY 2017 Budget proposal, which contains the FCC's FY 2017 performance plan, was submitted to Congress in February of 2016, prior to Chairman Pai's tenure as the FCC's agency head. Pursuant to the GPRA Modernization Act of 2010, P.L. 111-352, and OMB Circular A-11, the FCC has updated its strategic and performance goals since the Presidential transition in January of 2017 so as to reflect the priorities of the administration of the FCC under its new Chairman. The new strategic goals, which can be found in the performance plan section of the FCC's FY 2018 Budget proposal, include: Closing the Digital Divide, Promoting Innovation, Protecting Consumers and Public Safety, and Reforming the FCC's Processes. For additional information on the FCC's new goals, please see the FCC's FY 2018 Budget proposal, which is

available at: <https://www.fcc.gov/about/strategic-plans-budget>. The FCC has already made significant progress in FY 2017 towards implementing Chairman Pai's priorities. However, for the purposes of reporting on its activities in FY 2017, the FCC is presenting the performance information under the goals as they existed in the FCC's FY 2017 performance plan in accordance with OMB reporting guidelines. The FCC's new goals will be reflected next year in the FCC's Agency Financial Report for FY 2018. For FY 2017, the FCC, in accordance with its statutory authority and mission, established the following four strategic goals:

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 Statements 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

³ 47 U.S.C. § 254.

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

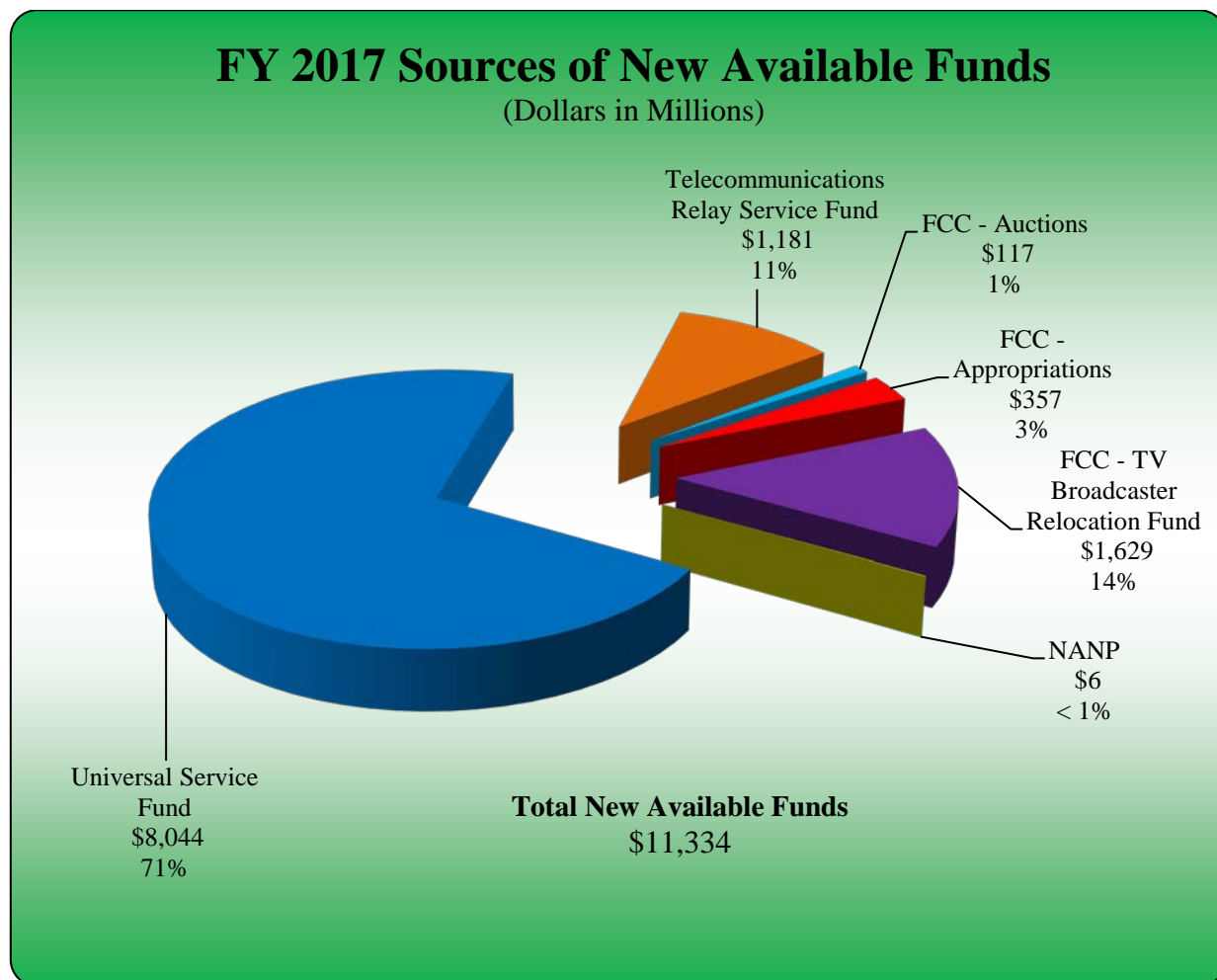
The Universal Service Administrative Company (USAC) administers the four universal service support mechanisms of the USF under the Commission's direction. These support mechanisms are funded through mandatory contributions from U.S. telecommunications service providers, including local and long distance 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 2017, the USF accounted for approximately \$8,044 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 2017, TRS accounted for approximately \$1,181 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) 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 2017, the NANP accounted for approximately \$6 million on the Commission's Consolidated Statement of Net Cost. NANP is not subject to budgetary accounting and not included on the Commission's Combined Statement of Budgetary Resources. 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>.

⁴ 47 U.S.C. § 225.

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



The Appropriations figure of \$357 million in the chart above reflects the authority for the Commission to collect regulatory fees. The \$1,629 million TV Broadcaster Relocation Fund in the chart above reflects the \$1,750 million or \$1.75 billion, authorized by The Middle Class Tax Relief and Job Creation Act of 2012 (Spectrum Act), less the \$121 million sequestered in 2017. The \$1,750 million or \$1.75 billion forward auction proceeds were transferred to the TV Broadcasters Relocation Fund in FY 2017 to reimburse FY 2018 costs reasonably incurred by TV stations that are involuntarily reassigned to new channels as a result of the repacking process and by multichannel video programming distributors (MVPDs) in order to continue carrying the signals of such stations. The \$117 million appropriation in the chart above is collections from auctions used to offset the cost of performing auctions-related activity.

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 the performance goals that it set for FY 2017. Greater detail on these accomplishments will be discussed in the Commission's APR for FY 2017. The Commission will include the FY 2019 APR with its Congressional Budget Justification and will post it on the Commission website at <https://www.fcc.gov/about/strategic-plans-budget> 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.

A key priority for the FCC is to create a regulatory environment that facilitates innovation. To that end, in a Notice of Proposed Rulemaking, the FCC took the first step toward restoring Internet freedom and promoting infrastructure investment, innovation, and choice by proposing to end utility-style regulation of broadband Internet access service. The FCC proposed to return to the framework that preserved a flourishing free and open Internet for almost 20 years. First, the Notice proposed to reverse the FCC's 2015 decision to impose Title II utility-style government regulation on Internet Service Providers (ISPs) and return to the light touch framework under Title I of the Communications Act. Second, the Notice proposed to return to the Commission's original classification of mobile broadband Internet access service as a private mobile service. Given the historical innovation and success of the wireless marketplace prior to the Title II Order, this proposal is expected to substantially benefit consumers and the marketplace. Third, the Notice proposed to eliminate the catch-all Internet conduct standard created by the Title II Order. Eliminating the Internet conduct standard is expected to promote innovation and network investment by eliminating regulatory uncertainty.

The Commission announced the closing of the broadcast incentive auction, which created a first-of-its-kind market for repurposing valuable broadcast airwaves for nationwide wireless use. The incentive auction was among the highest grossing auctions ever conducted by the FCC, yielding \$19.8 billion in revenue for 70 MHz of mobile broadband spectrum, including \$10.05 billion for 175 winning broadcast bidders, and more than \$7 billion to be deposited to the United States Treasury for deficit reduction. Of the winners, 30 stations will receive money for agreeing to move to a lower channel and 133 others will relinquish their licenses and indicated their intent to remain on air through channel-sharing agreements with non-winning stations. The Commission has now commenced a 39-month transition period to move broadcast stations to new channel assignments.

The FCC announced authorization of the first-ever Long Term Evolution-Unlicensed (LTE-U) devices in the 5 GHz band, a significant technical advance in wireless innovation and shared spectrum use. The FCC's Office of Engineering and Technology certified that the LTE-U devices being approved were in compliance with FCC

rules. LTE-U allows wireless providers to deliver mobile data traffic using unlicensed spectrum. Voluntary industry testing has demonstrated that both these devices and Wi-Fi operations can co-exist in the 5 GHz band.

The FCC approved its 20th Annual Mobile Wireless Competition Report in which, for the first time since 2009, the FCC made an affirmative finding that there is effective competition in the marketplace for mobile wireless services. The Report used data from 2016 and early 2017 and found that consumer demand and output continued to increase, average prices have been falling, and service providers have enhanced the performance, coverage, and capacity of their networks. The Report concluded that competition continues to play an essential role in the mobile wireless marketplace, driving innovation and investment.

The FCC expanded the spectrum available for vehicular radars used for safety applications like collision avoidance and adaptive cruise control. Access to this additional spectrum will enable continued innovation, allowing these radars to better distinguish between objects in areas close to the vehicle and improving performance for applications such as lane change warnings, blind spot detection, parking aids, “stop and follow,” “stop and go,” autonomous braking, and pedestrian detection. This is consistent with the spectrum that is available internationally, avoiding the need to customize the radars in vehicles for different markets.

The FCC revised and clarified its rules to promote more effective spectrum access for wireless microphone operations in the television bands, the repurposed 600 MHz band, and other frequency bands. The Order provided revisions and clarifications to certain technical and operational rules (e.g., spurious emissions rules, measurement of emission limits, coordination rules, access to spectrum in certain bands) that promote spectrum access.

The FCC reformed certain outdated rules applicable to the 800 MHz Cellular Service band to facilitate the use of Cellular spectrum for mobile broadband services such as long-term evolution (LTE), which provides high-speed connectivity to mobile consumers. To accommodate continued skyrocketing demand for mobile broadband, the revisions will allow providers to use cellular spectrum to provide mobile broadband service to the public more efficiently, reduce barriers to innovation and investment and ease administrative burdens. At the same time, the rules will continue to safeguard public safety operations.

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’s core mission is to serve the broader public interest, by protecting consumers and keeping the public safe. Robocalls are the number one consumer complaint to the FCC from the public, and the FCC has acted aggressively to target and eliminate unlawful robocalls. The FCC took a number of important steps to protect consumers against illegal robocalls, building on its work with the industry-led Robocall Strike Force.

- In a Notice of Proposed Rulemaking, the FCC sought comment on rules that would codify the “Do-Not-Originate” initiative proposed by the FCC and launched by the industry strike force. The proposed rules would allow carriers to block spoofed caller identification (caller ID) numbers associated with phone lines that do not actually dial out, without running afoul of FCC rules requiring carriers to complete all calls.
- The Commission also adopted a Notice of Inquiry which sought comment on how to further enable carriers to block illegal robocalls before they can reach consumers. The Commission asked how to create a safe harbor for providers from FCC call completion rules when they rely on objective criteria to identify and block calls that are highly likely to be fraudulent, illegal, or spoofed robocalls.
- The FCC also sought comment to address the issue of robocalls to reassigned phone numbers to reduce unwanted robocalls that consumers receive and provide clarity for responsible callers. The

Commission sought input on the idea of creating a comprehensive resource of reassigned numbers that businesses and other robocallers, such as schools, can use to avoid accidentally calling numbers no longer used by the consumer that gave their consent to receive these calls. The Commission asked whether voice service providers should report when a number has been reassigned and how that data might be managed and utilized appropriately, including questions addressing privacy and security issues.

- In another Notice of Inquiry, the FCC sought comment on standards to help differentiate legitimate phone calls from those that attempt to trick consumers through caller ID spoofing. The Notice of Inquiry asked legal, policy and technological questions about call authentication networks. Many malicious robocallers hide their true originating phone number to evade call-blocking or filtering tools and trick consumers about a call's true source. Improved call authentication would provide another tool to identify spoofing and improve the effectiveness of these services.
- The FCC proposed a \$120 million fine against an individual who apparently made almost 100 million spoofed robocalls in violation of the Truth in Caller ID Act. The law prohibits callers from deliberately falsifying caller ID information to disguise their identity with the intent to harm or defraud consumers. The operation apparently made the spoofed calls to trick unsuspecting consumers into answering and listening to his advertising messages. The proposed fine is based on 80,000 spoofed calls that the Commission has verified.
- The FCC issued a \$2.88 million fine against a company for facilitating unlawful robocalls. Robocallers used the company's calling technology platform to make millions of illegal robocalls to mobile phones without express prior consent from consumers. In 2013, the FCC's EB formally warned the company that it could be held liable for robocalls its customers were making in violation of the Telephone Consumer Protection Act, which prohibits autodialed phone calls, robocalls, or texts to wireless phones in most instances unless the caller has the prior express consent of the called party. Following the citation, the Bureau investigated and determined that the platform was still being used to make unlawful robocalls.

The FCC adopted rules to help law enforcement combat the serious threats posed by contraband wireless devices by inmates in prisons and jails nationwide. The new rules will simplify and streamline the process for Contraband Interdiction Systems (CIS) operators to obtain FCC authorization, allowing for quicker and easier deployment of these systems in correctional facilities. Some correctional facilities have implemented radio-based technologies to detect and block the use of contraband wireless devices that make and receive phone calls and send and receive text messages, as well as block access to the Internet (including use of apps).

The FCC acted to support the deployment of the First Responder Network Authority (FirstNet), a nationwide public safety broadband network for use by first responders. In 2012, Congress enacted legislation creating FirstNet to build and operate a nationwide interoperable public safety broadband network, which will consist of a network core and a radio access network (RAN) to enable wireless communications. The statute requires FirstNet to develop a national plan to deploy the RAN within each state but also gives each state the right to "opt out" and build its own RAN, provided that the state RAN will be interoperable with FirstNet's core network. Any state that chooses to opt out must submit a plan for its proposed state RAN to the FCC and demonstrate that its plan meets the statute's interoperability requirements. The FCC established standards and procedures to review state plans, including timelines for states to provide notification of their opt-out decisions and file plans with the FCC.

Hurricanes Harvey, Irma, and Maria marked the first time in U.S. history that three storms of Category 4 or stronger have hit the U.S. in the same hurricane season. The FCC's efforts included close coordination with the Federal Emergency Management Agency (FEMA), the Department of Homeland Security and other Federal government partners to identify necessary resources during and after the storms. The Public Safety and Homeland Security Bureau (PSHSB), along with other FCC Bureaus and Offices, issued Public Notices announcing procedures for requesting emergency regulatory relief and the 24/7 availability of the FCC Operations Center. As the storms made landfall, Commission staff gathered, analyzed and shared information

on the impacts to communications systems,-especially those that support 911 communications and deliver emergency alerts and other information to the public. At FEMA’s request, the FCC deployed teams to coordinate communications response needs. A team of PSHSB and EB personnel completed 38 missions at sites in Florida, Texas, Georgia, and Louisiana, and deployed personnel to Puerto Rico to coordinate communications response needs and conduct radio frequency assessments. For each of the hurricanes, the FCC activated its Disaster Information Reporting System, a voluntary web-based system that communications companies may use to report communications infrastructure status and to request assistance.

The PSHSB completed an investigation into the nationwide Voice over LTE (VoLTE) 911 outage suffered by a carrier, affecting localities across the United States. The Bureau opened a public docket and invited interested parties to provide information concerning the causes, effects, and implications of the outage. The Bureau’s report was based on data from the FCC’s network outage reporting system and interviews with officials from several carriers and several affected public safety answering points (PSAPs), including the Office of Unified Communications in Washington, DC. The findings indicated shortfalls in operational redundancies, risk assessment, and stakeholder and consumer outreach. Had the carrier followed certain best practices as outlined by the FCC’s Communications Security, Reliability and Interoperability Council, this outage would have had much less impact, and the outage could and should have been identified and addressed with periodic audits of the network. The carrier has since addressed the vulnerabilities that led to the outage.

The FCC’s EB 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 those investigations included:

- A settlement valued in excess of \$100 million to resolve an investigation of a telecommunications company’s failure to deploy wireless services as required under its FCC spectrum licenses. The company will pay a \$15 million civil penalty to the United States Treasury (Treasury), and the remaining \$85 million of the penalty is suspended pending compliance with the Commission’s order. Pursuant to the order, the company will surrender 196 of its licenses in the 39 GHz spectrum band to the Commission, sell the remainder of its license portfolio and remit 20 percent of the proceeds of that sale to the Treasury as an additional civil penalty.
- A settlement with a telecommunications company that resolved an investigation into whether the company engaged in deceptive and abusive marketing practices by switching consumers’ preferred phone carriers without authorization. The company will pay a \$4.2 million penalty, refund at least \$1.9 million to consumers who filed complaints about unauthorized carrier changes or unauthorized charges within the past two years and adopt a compliance plan.
- A \$1 million fine against a Florida-based long-distance carrier for “slamming” and “cramming.” The company’s telemarketers violated Commission rules by impersonating representatives of customers’ existing long-distance providers and switching the customer’s long-distance carriers without obtaining proper, verified authorization (“slamming”). The company also added unauthorized charges onto consumers’ telephone bills (“cramming”) and violated the Commission’s truth-in-billing rules by failing to plainly and clearly describe its charges on bills. The Commission received more than 150 complaints, and small businesses, along with several individuals, reported that the company’s telemarketers impersonated employees of their existing long-distance providers.
- The FCC proposed the maximum fine allowable by statute, i.e., \$144,344, against a so-called “pirate radio” operation in North Miami, Florida. This action marks the first time the Commission has proposed finding the property owners where the transmission equipment was located. Unlicensed radio broadcasts are illegal and can interfere with licensed broadcasting, including broadcasters’ ability to communicate public safety warnings to their communities. The Commission issued a Notice of Apparent Liability for Forfeiture (NAL) against a programming provider and the owners of the property where the station’s transmission equipment was located.

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.

High-speed Internet access, or broadband, is critical to economic opportunity, but there are many parts of the country where broadband is unavailable. The FCC has tools that it can use to help close this digital divide and bring down the cost of deploying broadband and create incentives for providers to connect consumer in hard-to-serve areas.

Chairman Pai announced the formation of the Broadband Deployment Advisory Committee (BDAC) to explore ways to accelerate deployment of broadband nationwide and to close the digital divide. The Committee is focusing on making specific recommendations for how the FCC can encourage broadband deployment across America and will tackle further reforms to the FCC's pole attachment rules, identifying unreasonable regulatory barriers to broadband deployment, ways to encourage local governments to adopt deployment-friendly policies, and other reforms.

The FCC adopted two separate orders to spur the buildout of mobile and fixed broadband networks in rural America. The FCC adopted new Mobility Fund Phase II (MF-II) rules to bring 4G LTE to millions of unserved Americans. The MF-II auction will make available more than \$4.5 billion in new funding over ten years for expanding 4G LTE mobile coverage across rural America and in Tribal lands. The Mobility Fund was created in 2011 to preserve and extend mobile broadband and voice services in unserved and underserved areas. Mobility Fund I offered providers up to \$350 million in one-time funding to spur deployment of advanced wireless services in unserved areas, including Tribal lands. Despite that support and extensive 4G LTE deployment by industry, approximately 575,000 square miles either still lack access to 4G LTE service or only has 4G LTE coverage because of universal service support. The new rules will close coverage gaps, set service requirements, and establish an auction framework.

The FCC also established procedures for a robust challenge process to ensure that the Commission targets MF-II support to primarily rural areas that lack unsubsidized 4G LTE service. Establishing the challenge process will enable the Commission to resolve eligible area disputes quickly and expeditiously. The FCC also adopted parameters for a one-time collection of 4G LTE coverage data tailored to MF-II. The Commission will use this coverage data, in conjunction with subsidy data, to establish the map of presumptively eligible areas. Interested parties will have a window to file challenges to areas deemed presumptively ineligible, and providers will have an opportunity to respond to those challenges.

The FCC set key rules for the 2018 Connect America Fund Phase II (CAF-II) auction allocating nearly \$2 billion over ten years from the Connect America Fund to expand high-speed Internet access to consumers and businesses in rural areas currently unserved by fixed broadband. This represents the FCC's first use of an auction to allocate ongoing Connect America Fund support for fixed broadband and voice services in rural areas. Using a competitive "reverse auction" where providers will compete for support to expand broadband to unserved areas, along with voice service, the auction rules aim to maximize the value of the Connect America Fund dollars spent by balancing deployment of higher-quality services with cost efficiencies. The FCC also sought comment on proposed application and bidding procedures for the auction, how interested parties can qualify to participate in the auction, how bidders will submit their bids, and how the FCC will process bids to determine the winners and support amounts.

To facilitate the implementation of the upcoming Universal Service Fund-related auctions, Chairman Pai formed the Rural Broadband Auctions Task Force. The Task Force is overseeing both the CAF-II and MF-II auctions.

The Commission voted to provide up to \$170 million from the Connect America Fund to expand broadband deployment in unserved rural areas of New York State. The \$170 million in federal funding will be coupled with at least \$200 million in state funding and private investment to jump-start broadband.

The FCC updated, clarified and streamlined the current rules governing non-geostationary satellite orbit (NGSO) fixed-satellite service (FSS) systems to better reflect current technology and promote additional operational flexibility. These rule improvements will facilitate the delivery of broadband services through satellite constellations, paving the way for greater broadband offerings in the United States, particularly in remote and rural areas.

The FCC approved rules to improve the quality and efficiency of video relay services (VRS). VRS enables people who are deaf, hard-of-hearing and speech disabled to make calls over broadband through intermediaries using American Sign Language and a videophone. These changes respond to requests from VRS users for improved relay services – and a more robust marketplace of service providers – that are functionally equivalent to those available to hearing individuals.

The FCC adopted new rules to ensure that Americans who are blind or visually impaired have access to more video described programming. Video description, also called audio description, allows people with limited vision to hear a description of on-screen activity while also following the dialogue, providing a more fulsome entertainment experience. The new rules will ensure that more video described programming is available to those who rely on it, and provide broadcast and non-broadcast television networks more flexibility in complying with the rules. The new rules take another step in implementing and furthering the accessibility goals of the 21st Century Communications and Video Accessibility Act of 2010.

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 FCC took actions to modernize and streamline the FCC's operations and programs to increase transparency, improve decision-making, build consensus, reduce regulatory burdens, and simplify the public's interactions with the agency.

The FCC implemented a series of process reforms to improve transparency and openness at the FCC. These included:

- Posting the full text of documents circulated to other Commissioners for a vote at the FCC's Open Meetings on the Commission's website. Traditionally, these documents, and the draft proposals contained therein, were circulated internally three weeks before an Open Meeting, but not made available to the public until after the final vote.
- Sharing with every Commissioner's Office every item that will be considered at an open meeting prior to the Chairman's Office discussing the content of those items publicly or the FCC releasing the text of those documents.
- Releasing a one-page fact sheet summarizing the proposal in question when the agency releases the text of meeting items, to make Commission items more accessible to more Americans.
- Requiring that any substantive edits made to an item between the time it is circulated and the meeting be proposed by a Commissioner, rather than staff. This reform was instituted to help promote accountability.

The FCC eliminated two public inspection file rules to reduce regulatory burdens on commercial broadcasters and cable operators without adversely affecting the general public. These rules required: (1) commercial

television and radio broadcast stations to retain, and make available to the public, copies of correspondence from viewers and listeners; and (2) cable operators to maintain and allow public inspection of the location of a cable system's principal headend. Removing these requirements also enabled broadcasters and cable operators to make their entire public inspection file available online and permitted them to cease maintaining local public files.

The FCC eliminated several duplicative rules and reporting requirements, and streamlined annual reporting requirements for eligible telecommunications carriers (ETCs) that receive high-cost universal service support. While reducing ETCs' regulatory burdens, the action also strengthened tools for program oversight to protect the high cost universal support program against waste, fraud, and abuse.

The FCC streamlined and modernized authorization requirements for most radiofrequency devices, such as cell phones or TV receivers, that are imported, marketed, or operated within the United States. The Commission's action allowed required labeling information to be provided to the consumer via the device's electronic display, providing an alternative to the requirement for etching or permanent labels on the exterior of devices. Manufacturers expect the use of electronic labelling rather than permanent physical labels to result in a measurable reduction in costs. This action is consistent with the objectives of the Enhance Labeling, Accessing, and Branding of Electronic Licenses Act of 2014 or the E-LABEL Act.

As part of its Modernization of Media Regulation Initiative, the FCC issued a Public Notice to begin a review of its rules applicable to media entities, including broadcasters, cable operators, and satellite television providers. The FCC's action invited public comment on which media rules should be modified or eliminated as unnecessary or burdensome. Through this review, the FCC sought to reduce regulations that can impede competition, innovation, and investment in the media marketplace.

The FCC streamlined the technical requirements imposed upon AM broadcasters to assist them in providing vital radio service to consumers throughout the country. By identifying ways to streamline the technical requirements imposed upon AM broadcasters, these actions free up resources to allow broadcasters to better to serve the public.

The FCC modernized and updated its signal leakage and signal quality rules applying to cable operators to reflect the cable industry's transition from analog to digital systems and current technologies. The FCC adopted a new performance benchmark for digital cable systems to ensure that cable operators provide "good quality" signals to their subscribers and removed unnecessary digital signal quality certification and testing requirements. The Order also adopted new rules and testing procedures to detect and limit cable signal leakage in digital cable systems.

The FCC relaxed its rules to permit noncommercial educational broadcasters (NCEs) to devote up to one percent of their annual airtime to fundraising for third-party organizations that qualify as tax-exempt nonprofits under Section 501(c)(3) of the Internal Revenue Code, without having to first seek a waiver from the FCC. NCEs, such as public and religious broadcasters, have long been free to solicit funds to support their own operations, but until now, could only conduct on-air fundraising for third parties if they received an FCC waiver or the fundraising activity did not alter or suspend regular programming. The FCC's action will allow NCEs to raise money for worthy causes, such as disaster relief and assistance for the poor, while educating their audiences about important issues.

The FCC made optional a previously mandatory requirement that compelled officers and board members of NCE stations to report personal information. The FCC will still require NCEs to submit information about the gender, race, and ethnicity of their governing officers and board members.

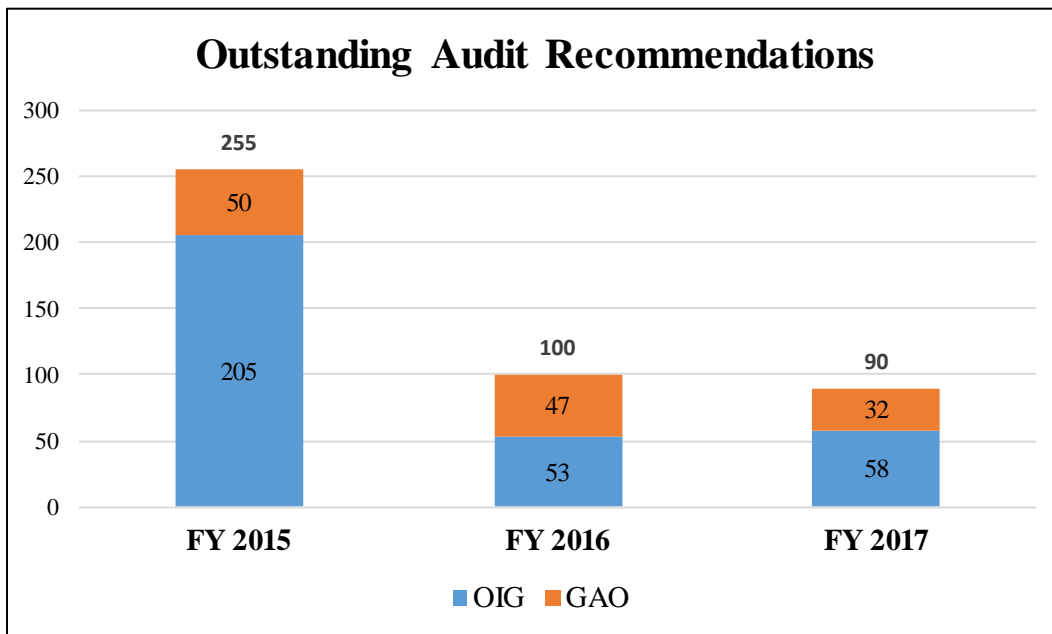
The FCC updated the Personal Radio Services rules, found in Part 95 of the Commission's rules, to modernize them, remove outdated requirements, and reorganize them to make it easier to find information. The FCC

Personal Radio Services rules cover a wide variety of wireless devices that generally use low power levels, communicate over shared radio frequencies, and usually do not require an individual FCC license for each user. Common examples of Personal Radio Services devices are walkie-talkies; radio controlled toy cars, boats, and planes; hearing assistance devices; citizen band radios; medical implant devices; and Personal Locator Beacons. The revisions reflect a comprehensive reform to simplify, streamline, and update these rules.

The FCC eased outdated pricing rules to enable continued robust growth in the market for business data services (BDS). BDS are dedicated connectivity used by businesses, non-profits, and government institutions for secure and reliable communications. BDS are essential to the production and delivery of goods and services across the economy, from connecting bank automated teller machine (ATM) networks and retail credit-card readers to providing enterprise business networks with access to branch offices, the Internet or the cloud. The Order recognized the strong competition present in the BDS market and found that legacy regulation inhibited the investment required for the transition of BDS from legacy copper-based networks to high-speed Ethernet connectivity.

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). In FY 2017 the Commission closed 58 prior outstanding recommendations, received 48 new recommendations and finished the fiscal year with a total of 90 recommendations.



Management Assurances

MANAGEMENT ASSURANCES PURSUANT TO THE 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.

In accordance with Office of Management and Budget (OMB) guidance related to FMFIA, OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, the Commission maintains internal controls for financial and management reporting that provide 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. Furthermore, the Commission's internal controls provide for the reliability and completeness of its financial and performance data.

With regard to the auditor's findings from the FY 2016 financial statement audit, during FY 2017, the FCC worked to develop corrective action plans and to address any recommendations made by the auditors. To resolve an accounting-related finding, the Commission enhanced its internal controls related to recognition of non-exchange revenue. That issue has been retested and is now closed, as reported in the FY 2017 audit.

In their audit report from FY 2016, the independent auditors also included findings in the area of information technology controls. To address these findings, the Commission has worked diligently during FY 2017 to develop and implement corrective action plans to address fully the auditor's recommendations. The Commission will continue to make every effort in FY 2018 to resolve the recommendations associated with these findings to minimize any repeat or new findings in this area.

Status of Internal Controls – Section 2 of FMFIA

During FY 2017, the Commission continued its efforts to improve and strengthen its internal controls over operations and financial reporting by building upon continuing improvements to its risk assessment processes. Beginning in FY 2015, the Commission implemented new risk assessment tools to update its pre-existing processes for internal control evaluation. The FCC made this improvement both at the FCC and at its reporting components, including USF, TRS, and NANP. The FCC's updated risk assessment process integrates the latest versions of the Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government* (Green Book), as well as OMB's Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Utilizing GAO's Green Book as a blueprint, the FCC implemented an entity level risk assessment tool that is completed each fiscal year by its largest Bureaus and Offices as well as its reporting components. Furthermore, the Commission uses an additional program risk assessment tool for higher risk areas, such as the USF programs, TRS, NANP, auctions, contracts, financial operations, human resources, and information technology functions. In FY 2017, building upon the FCC's improvements from recent years, the FCC updated the entity level risk assessment process to include enterprise risk management (ERM), pursuant to OMB Circular A-123. The Commission's Senior Management Council, which includes representatives from the Bureaus, OGC, OET, and OMD's divisions, also continues to serve


as a means to integrate these internal control assessment processes into the operations of the FCC's Bureaus and Offices. While the Commission has received unmodified opinions over its consolidated financial statements for several consecutive years, the Commission understands that maintaining proper internal controls requires continuous review of its internal controls and improvements to them when necessary.

Financial Management Systems – Section 4 of FMFIA

Section 4 of FMFIA requires agencies to evaluate annually whether the agency's financial management systems conform to government-wide requirements. In FY 2017, the Commission's financial management systems were in compliance with government-wide requirements. The Commission improved the performance of its financial management systems in FY 2017 by completing an upgrade of those systems. The Commission also continues to work with its reporting components on its financial systems.

Statement of Assurance

FCC management is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of FMFIA. The FCC conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the FCC can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2017.


Ajit Pai
Chairman
November 15, 2017

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 programs at the FCC, including the activities under the Spectrum Act, 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"). Beginning in FY 2018, additional financial systems support will include accounting for the reimbursements 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 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 results of these modernization initiatives have facilitated a continued reduction in contract support. The current FCC financial accounting system, ten-year firm-fixed price contract, expires in September of 2018. The FCC continues the planning and coordination process for the future procurement of financial management system services in FY 2018.

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.

In conjunction with the Commission's recent process reform efforts, specifically in support of the incentive auction program and the reimbursement of the TV Broadcaster Relocation Fund, the financial operations team continues to improve its payment systems to be more efficient and to eliminate paper-based processes. The Commission updated the Commission Registration System (CORES) system to allow for Winning Bidder and Reimbursement Eligible entities to enter their payment banking information into CORES. The addition of the CORES' Banking Module provides Winning Bidder and Reimbursement Eligible entities with enhanced self-service reporting functionality allowing users to view: reporting status, available balance for reimbursement, and payment history.

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 twelve consecutive years, the financial statements have received an unmodified audit opinion from the external auditors.

The principal financial statements have been prepared to report the financial position and results of operations of the Commission. The statements have been prepared from the books and records of the Commission, in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities. The financial statements and notes are presented in accordance with OMB Circular No. A-136, *Financial Reporting Requirements*, dated August 15, 2017.

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 2017 and FY 2016 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 2017

Consolidated
(Dollars in Thousands)

Net Financial Condition	FY 2017	FY 2016	Increase (Decrease)	Percentage Change in Financial Position
Intragovernmental				
Fund Balance with Treasury	\$ 12,790,101	\$ 3,568,793	\$ 9,221,308	258%
Investments	7,101,239	8,022,992	(921,753)	-11%
Accounts Receivable	491	506	(15)	-3%
Other	4,373	3,740	633	17%
Total Intragovernmental	\$ 19,896,204	\$ 11,596,031	\$ 8,300,173	72%
Cash and Other Monetary Assets	\$ 113,743	\$ 9,095,208	\$ (8,981,465)	-99%
Accounts Receivable, net	718,905	927,444	(208,539)	-22%
General Property & Equipment, net	62,117	48,426	13,691	28%
Other	13,024	13,024	-	-
Total Assets	\$ 20,803,993	\$ 21,680,133	\$ (876,140)	-4%
Intragovernmental				
Accounts Payable	\$ 534	\$ 676	\$ (142)	-21%
Custodial	8,637,202	3,033,683	5,603,519	185%
Other	5,665	4,782	883	18%
Total Intragovernmental	\$ 8,643,401	\$ 3,039,141	\$ 5,604,260	184%
Accounts Payable	\$ 264,016	\$ 199,051	\$ 64,965	33%
Federal Employee and Veteran Benefits	2,978	2,838	140	5%
Deferred Revenue	2,114,141	360,718	1,753,423	486%
Prepaid Contributions	42,852	53,390	(10,538)	-20%
Accrued Liabilities for Universal Service	515,910	549,167	(33,257)	-6%
Deposit/Unapplied Liability	-	8,949,194	(8,949,194)	-100%
Other	32,163	29,464	2,699	9%
Total Liabilities	\$ 11,615,461	\$ 13,182,963	\$ (1,567,502)	-12%
Unexpended Appropriations - All Other Funds	\$ 2,820	\$ 2,832	\$ (12)	0%
Cumulative Results of Operations - Funds from Dedicated Collection	8,907,714	8,279,799	627,915	8%
Cumulative Results of Operations - All Other Funds	277,998	214,539	63,459	30%
Total Net Position	\$ 9,188,532	\$ 8,497,170	\$ 691,362	8%
Total Liabilities and Net Position	\$ 20,803,993	\$ 21,680,133	\$ (876,140)	-4%
Net Cost of Operations	\$ 10,156,667	\$ 9,876,621	\$ 280,046	3%
Total Budgetary Resources	\$ 10,918,374	\$ 7,518,952	\$ 3,399,422	45%

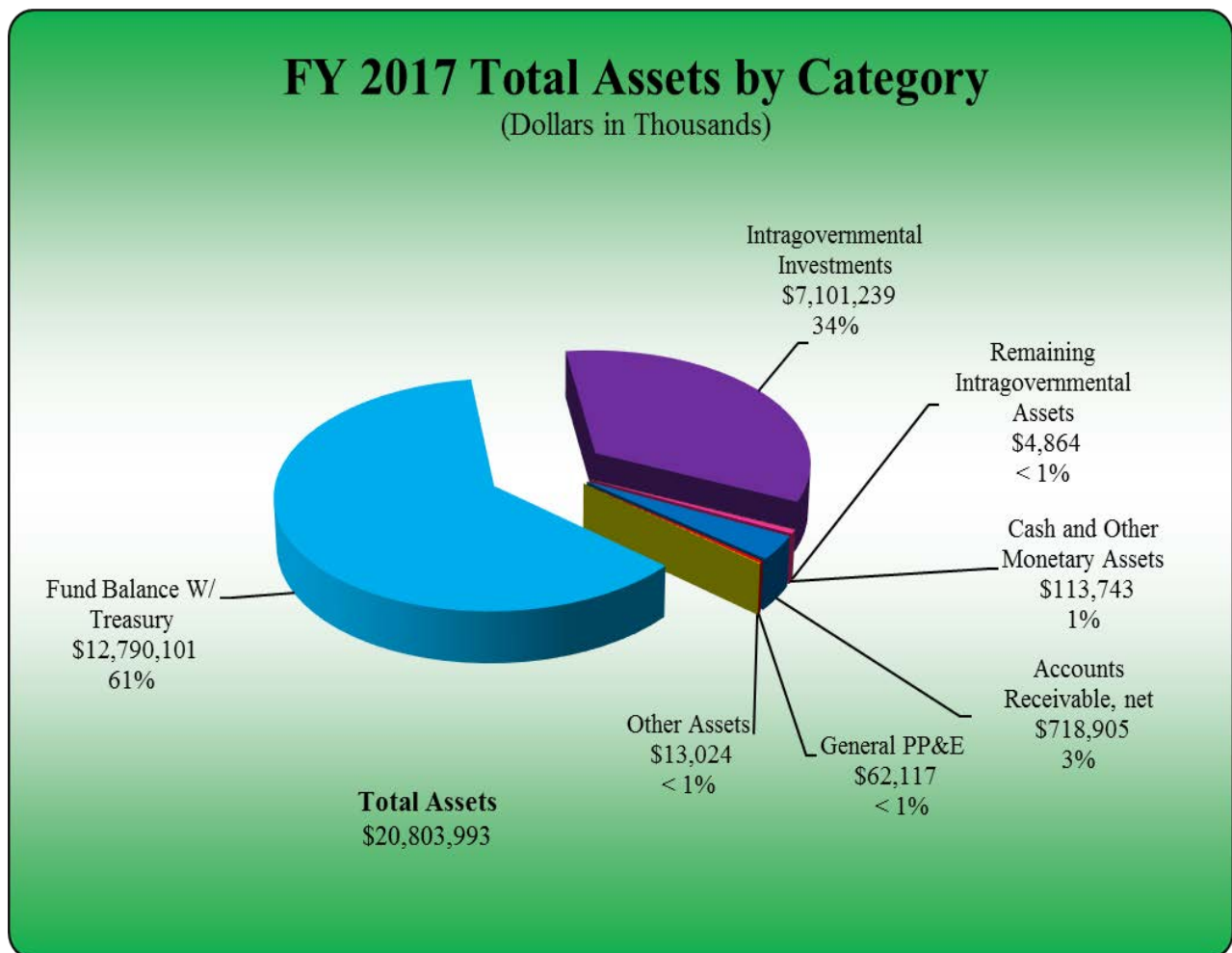
The following is a brief description of the nature of each required financial statement and its relevance, including a description of certain significant balances on Commission operations.

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). Fund Balance with Treasury and Intragovernmental Investments represent over 95 percent of total assets as of September 30, 2017.

The graph below presents the total assets of the Commission as of September 30, 2017. The large Fund Balance with Treasury balance of \$12,790 million, mainly results from the forward auction of the Incentive Auction.

The large Intragovernmental Investment balance of \$7,101 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 \$718 million is primarily composed of USF receivables totaling \$641 million.

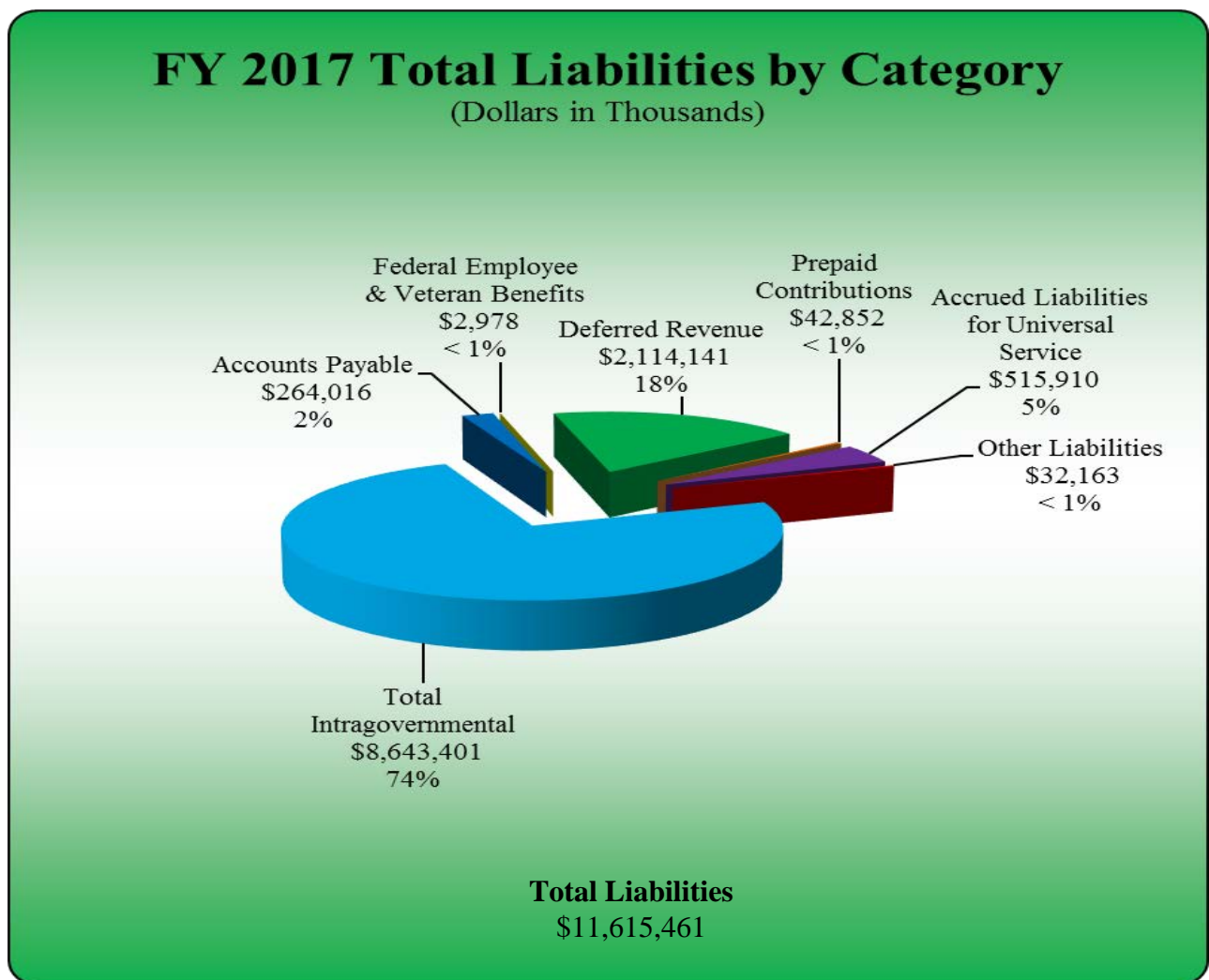


The graph below presents the total liabilities of the Commission as of September 30, 2017. The Commission's most significant liabilities are Total Intragovernmental of \$8,643 million, and Deferred Revenue of \$2,114 million which alone accounted for over 92 percent of total liabilities as of September 30, 2017.

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

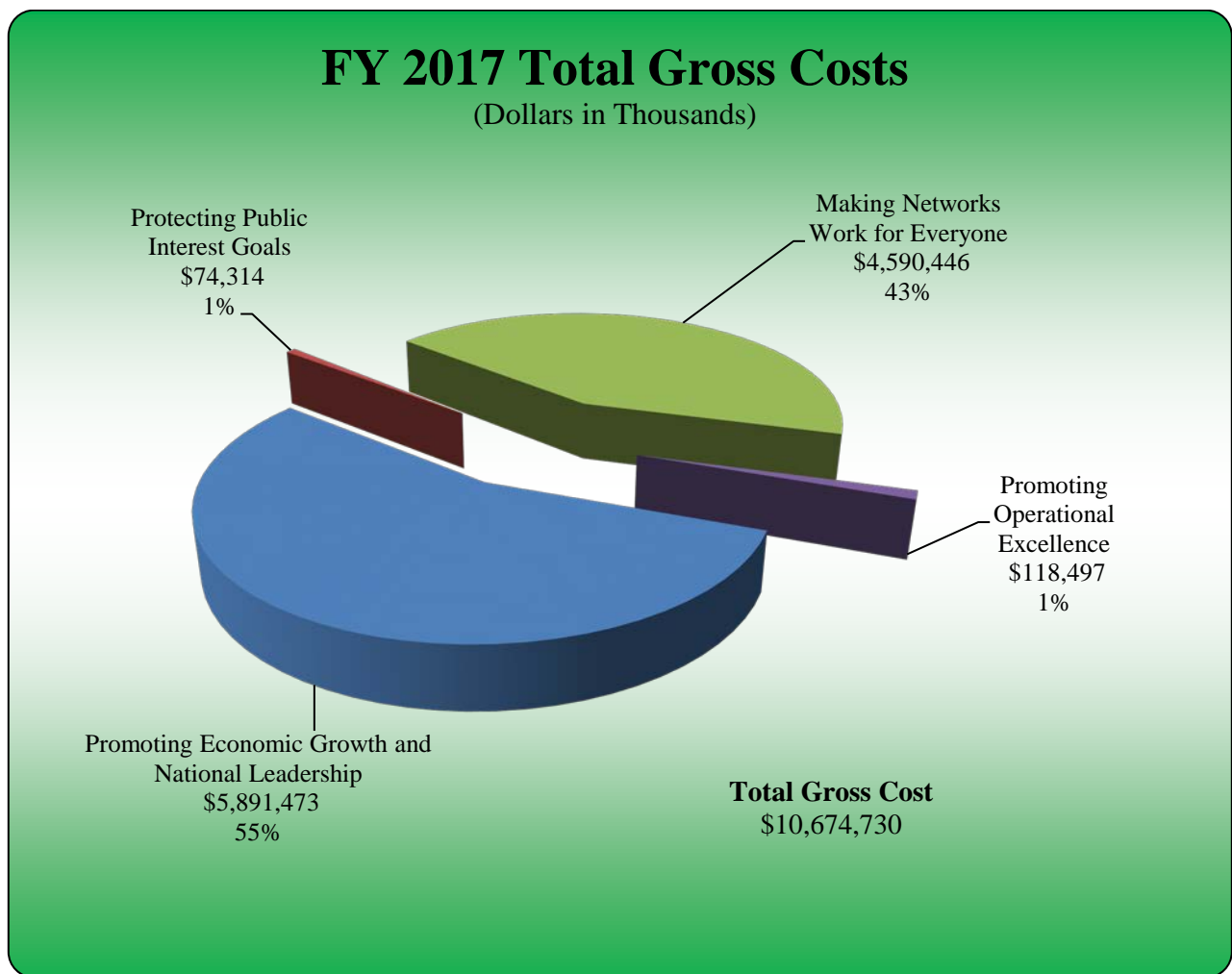
The large Deferred Revenue balance is mainly due to a few remaining licenses from the forward auction of the Incentive Auction that have not been granted as of September 30, 2017.

The Accrued Liabilities for Universal Service represent the expected October (FY 2018) 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.

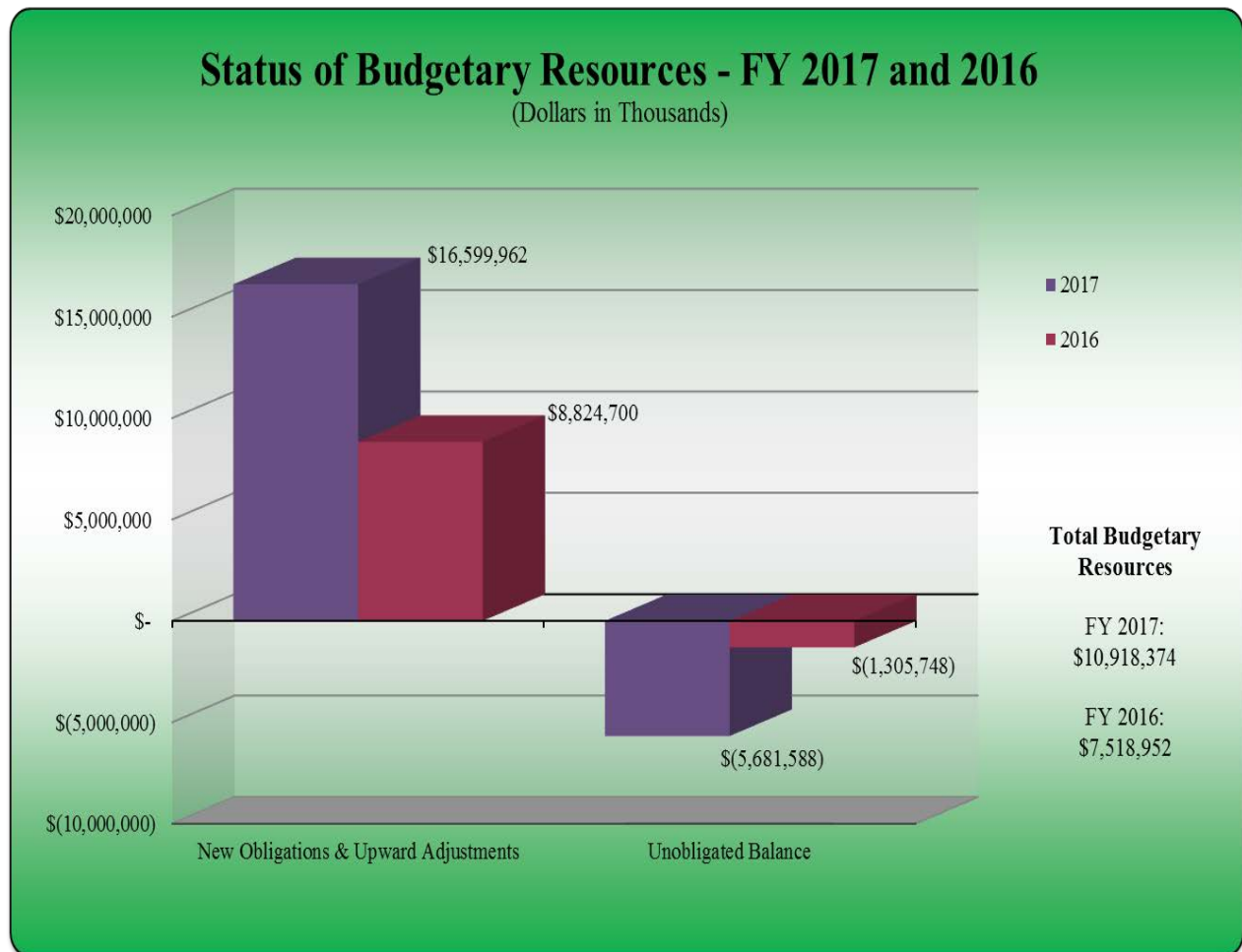
The graph below presents the total gross costs of each Commission program.



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 2017, the Commission’s Net Position increased \$691 million or 8 percent to \$9,188 million compared to the net position of \$8,497 million for FY 2016.

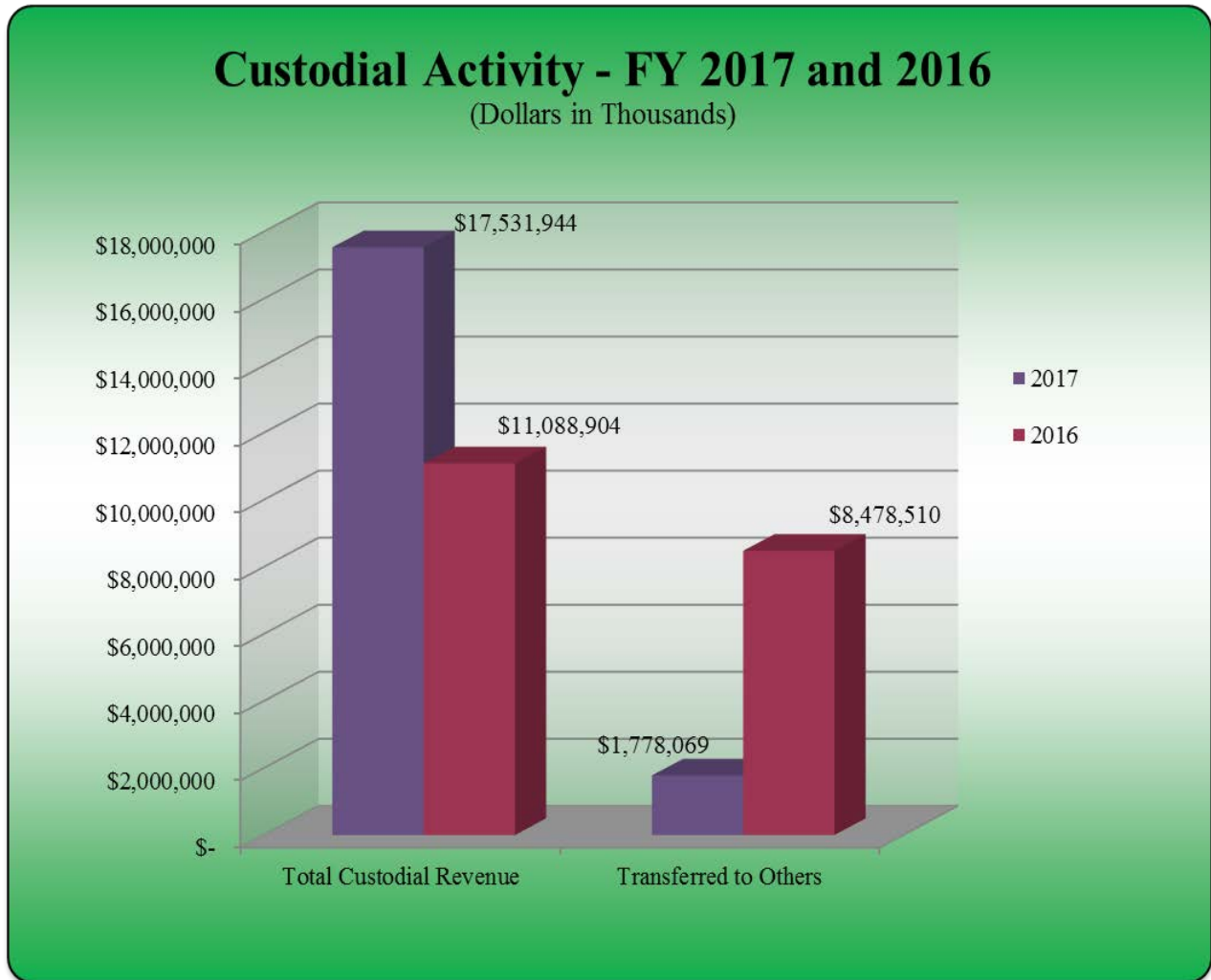
Combined Statement of Budgetary Resources: This statement provides information on how budgetary resources were made available to the Commission for the year and the status of those budgetary resources at the end of the year. The Commission receives most of its budgetary authority from appropriations. 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 \$10,918 million in budgetary resources of which \$16,600 million was for new obligations and upward adjustments and \$(5,682) million remained unobligated. The abnormal balances in FY 2017 and FY 2016 are related to the Connect America Fund (CAF) Phase II and Rate of Return obligations. However, CAF and Rate of Return are programs within the USF, and exempt by Congress from the provisions of the Antideficiency Act through December 31, 2018.

The chart below presents the status of budgetary resources comparatively between FY 2017 and FY 2016.



Consolidated Statement of Custodial Activity: The Commission recognized \$17,532 million of custodial revenue during FY 2017. From this balance, \$10,033 million in auction revenue was paid for incentive payments to reverse auction winners, and \$1,750 million in auction revenue was transferred to the TV Broadcaster Relocation Fund. The Commission also transferred \$28 million in miscellaneous receipts, and fines and penalties to the Treasury General Fund.

The chart below presents the total amount of custodial revenue and amounts transferred to others comparatively between FY 2017 and FY 2016.



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 2017, the Commission was required to collect \$357 million in regulatory fees. Actual collections were slightly over \$366 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 REPORT

Transmittal from Office of Inspector General



OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 15, 2017
TO: Chairman
FROM: Inspector General
SUBJECT: Audit of the Federal Communications Commission's Fiscal Year 2017 Financial Statements (Project No. 17-AUD-07-03)

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 the Federal Communications Commission's (FCC) fiscal year 2017 financial statements. The audit was conducted in accordance with generally accepted government auditing standards.

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 FCC's financial statements were fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles.
- Two significant deficiencies were noted this year, both of which were repeated from prior years. The first significant deficiency was related to information technology controls at FCC and the Universal Service Administrative Company and the second was related to Universal Service Fund Budgetary Accounting.

Additionally, one prior year significant deficiency, relating to FCC's Accounting for Non-Exchange Revenue, was closed this year.

The OIG monitored Kearney's performance throughout the audit and reviewed their report and related documentation. Kearney is wholly responsible for the attached audit report dated November 15, 2017 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 the audit. If you have any questions, please

contact Robert McGriff, Assistant Inspector General for Audit, at (202) 418-0483 or robert.mcgriff@fcc.gov; or Sophie Jones, Deputy Assistant Inspector General for Audit at (202) 418-1655 or sophila.jones@fcc.gov.

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

Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Federal Communications Commission (FCC), which comprise the consolidated balance sheet as of September 30, 2017 and 2016, 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. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 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, 2017 and 2016, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 17-03, we have also issued reports, dated November 15, 2017, 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, 2017. 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. 17-03, and should be considered in assessing the results of our audits.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
November 15, 2017

Independent Auditor's Report on Internal Control over Financial Reporting



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited the consolidated financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2017, and have issued our report thereon dated November 15, 2017. 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. 17-03, *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. 17-03. 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.

Significant Deficiencies

I. Universal Service Fund Budgetary Accounting

Through the Universal Service Fund's Schools and Libraries (S&L) program, the Federal Communications Commission (FCC) helps schools and libraries obtain affordable broadband internet. This includes help paying for recurring costs, such as monthly internet bills, and non-recurring costs, such as the purchase and installation of equipment. The Universal Service Administrative Company (USAC), with the assistance of a third party service provider, administers the Schools and Libraries program on behalf of FCC.

Eligible schools, school districts, and libraries apply to participate in the Schools and Libraries program. Once accepted into the program, USAC issues a Funding Commitment Decision Letter (FCDL). The FCDL communicates acceptance into the program and relevant conditions, including the type of services USAC will reimburse, the maximum amount eligible for reimbursement, and the date by which the invoices must be submitted (referred to as the "invoicing deadline" hereafter). When USAC issues an FCDL, accounting personnel records an obligation in USAC's accounting system. As invoices are paid, USAC's accounting personnel reduce the obligated balance. FCDLs generally have an invoicing deadline 120 days after issuance. However, non-recurring costs are granted an automatic one year extension if the FCDL is issued on or subsequent to March 1st. Thirty days after the invoicing deadline, USAC deobligates any unspent funds. FCC reports amounts deobligated in the *Recoveries of Prior Year Unpaid Obligations* line on its consolidated Statement of Budgetary Resources (SBR).

Beginning in FY 2016, USAC began transitioning from its Simplified Tracking and Review System (STARs) to E-Rate Productivity Center (EPC), an account and application management system for the Schools and Libraries E-rate Program. E-rate Program participants use EPC to submit documentation, receive notifications, and to contact customer service. USAC and its third party service provider also use EPC to support their daily operations, including tracking invoice deadlines.

We selected a sample of 87⁵ FCDLs from a total population of 94,239.⁶ For each sampled FCDL, Kearney obtained documentation to support the invoicing deadline in EPC. Seven of the S&L samples selected had FCDLs with non-recurring services issued on or after March 1st. The invoicing deadline for none of these seven FCDLs reflected the automatic one year extension. USAC confirmed this was a systemic issue with EPC. After initially communicating this issue to USAC on September 8th and subsequent to the completion of our sample test work, USAC provided additional documentation on November 3rd demonstrating it had self-identified this issue in April 2017. USAC stated it had implemented an interim solution and had finalized its remediation plan by October 26, 2017.

⁵ Of the 87 FCDLs reviewed, 77 were related to the S&L program. The remaining 10 FCDLs were related to other USAC initiatives.

⁶ Of the 94,239 FCDLs subject to our review, 84,717 were related to the S&L program. The remaining 9,522 FCDLs were related to other USAC programs.

In FY 2016, USAC's S&L program office implemented EPC. USAC did not effectively test the functionality of S&L business rules within EPC to ensure those rules were operating as intended. The program office did not have adequate procedures to ensure invoicing deadlines were accurate. Accounting personnel did not have the ability to effectively review the accuracy of invoicing procedures.

Inaccurate invoicing deadlines increase the risk of premature deobligations. Because invoicing deadlines for seven of our samples were January 2018 instead of January 2019, USAC was at risk of improperly de-obligating \$29M in FY 2018. This improper deobligation would have resulted in an overstatement of FCC's *Recoveries of Prior Year Unpaid Obligations* line on the FY 2018 SBR. No obligations were impacted for FY 2017; however, as this issue is systemic in nature, additional transactions could be at risk of misstatement in future years.

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

1. Develop and implement test scenarios for USAC business rules to ensure EPC functionality is operating effectively. *[New]*
2. Ensure policies and procedures adequately address recording deobligations in accordance with program rules and accounting standards. *[Repeat]*
3. Ensure quality review procedures adequately address recording deobligations in the appropriate fiscal year. *[Repeat]*

II. 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:

- FCC General IT Support System – We noted that FCC had improved its overall information security program since the FY 2016 FISMA evaluation, most notably in implementing

portions of its risk management program, which it designed in FY 2016 to improve the security over FCC information, as well as FCC's oversight of third party systems. FCC also developed reporting metrics for areas of its information security program, implemented regular vulnerability scanning, and continued to shift processing to the cloud and replace legacy systems and infrastructure. Despite the progress made during FY 2017, we identified control weaknesses in multiple IT control areas, including Risk Management, Identity and Access Management, and Information Security Continuous Monitoring. 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.

- FCC Financial Management System – 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 as 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 2017 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 the FCC did not have a valid authorization to operate for one of the systems. Without an authorization to operate, the FCC is operating a system for which the identified risks have not been evaluated and accepted by management.

In general, we found that FCC had not implemented effective policies, procedures and processes over its general support system, FCCNet, and its financial management system, Genesis. 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 2017 FISMA evaluation report includes 24 recommendations intended to improve the effectiveness of FCC's information security program controls in the areas of Risk Management, Configuration Management, Identity and Access Management, Information Security Continuous Monitoring, Incident Response, and Contingency Planning. Twenty one of the recommendations relate to FCC and three of the recommendations related to USAC. Of the 21 FCC recommendations, 14 related to FISCAM control areas. All three of the USAC recommendations related to FISCAM control areas.

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 2016 financial statements,⁷ we noted three issues that were related to internal control over financial reporting. The status of the FY 2016 internal control findings is summarized in Table 1.

Table 1. Status of Prior Year Findings

Control Deficiency	FY 2016 Status	FY 2017 Status
Accounting for Non-Exchange Revenue	Significant Deficiency	Resolved
Universal Services Fund Budgetary Accounting	Significant Deficiency	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 Responses to Independent Auditor's Reports on Internal Control over Financial Reporting and Compliance with Laws and Regulations for Fiscal Year 2017" included in the FCC's 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.

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. 17-03 in considering the entity's internal control over financial reporting. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
November 15, 2017

⁷ *Independent Auditor's Report on Internal Control Over Financial Reporting* published in the Federal Communications Commission Fiscal Year 2016 Agency Financial Report

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, 2017, and have issued our report thereon dated November 15, 2017. 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. 17-03, *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. 17-03. Although our audit procedures did not identify any instances of non-compliance in FY 2017, FCC management communicated a potential instance of non-compliance with the *Antideficiency Act*⁸ that was identified in 2011. This potential non-compliance was still being researched by FCC as of September 30, 2017.

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

⁸ The Antideficiency Act prohibits the FCC from obligating or expending federal funds in advance or in excess of an appropriation, and from accepting voluntary services.

the United States of America, *Government Auditing Standards*, and OMB Bulletin No. 17-03, in considering FCC's compliance. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
November 15, 2017

Commission's Response to Independent Auditor's Reports



Office of the Managing Director

DATE: November 15, 2017

TO: David L. Hunt, Inspector General

FROM: Mark Stephens, Managing Director
Kathleen Heuer, Chief Financial Officer
Christine Calvosa, Acting 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 2017

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*. As always, the Federal Communications Commission (FCC or Commission) appreciates the efforts of the Office of Inspector General and its independent auditor, Kearney and Company, to work with the FCC throughout the annual financial statement audit process.

We are pleased that, for the twelfth straight year, the independent auditor provided an unmodified ("clean") opinion and found that the Commission's consolidated financial statements for Fiscal Year (FY) 2017 present fairly, in all material respects, the financial position of the Commission as of September 30, 2017. These results demonstrate the Commission's commitment to effective internal controls and financial management.

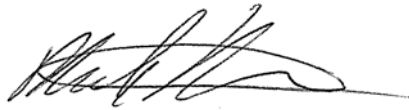
The FY 2017 audit report did not identify any material weaknesses but did identify two significant deficiencies. The first significant deficiency is new for FY 2017 and relates to the potential risk of the Universal Service Administrative Company (USAC) incorrectly recognizing deobligations for the Universal Service Fund's (USF) Schools and Libraries program due to control issues with implementation of a new funding system. The second significant deficiency is a repeat finding that relates to the FCC's controls over its information technology (IT) systems. The FCC concurs with the recommendations made by the independent auditors.

With respect to the finding related to USAC budgetary accounting, the Commission is aware that USAC experienced delays and challenges with the implementation of its E-Rate Productivity Center (EPC) during Funding Year 2016 for the Schools and Libraries program. In addition to the issues noted by the auditors, problems with EPC's deployment resulted in delays in processing applications for program funding, and the FCC has been very proactive in working with USAC to resolve the EPC system's deficiencies. During FY 2017, the FCC's Chairman directed USAC to resolve the program deficiencies with EPC, improve USAC transparency and accountability, and identify alternative options to assist applicants in the event of EPC system failures. Working with the FCC's staff, USAC has taken several steps to resolve the problems that it encountered with EPC's initial deployment. These efforts include: (1) implementing redevelopment work to

ensure that all EPC processes function efficiently for Funding Year 2017 and beyond; (2) deploying resolutions for system issues affecting the completion of Funding Year 2016 and Funding Year 2017 applications; (3) resolving system issues identified in post-commitment review processes; (4) completing development of post-commitment features; and (5) ensuring Funding Year 2018 FCC forms and processes are updated and capable for use with multiple funding years. These corrective actions are well underway, and the FCC will work to fully remediate the auditor's recommendations related to this significant deficiency as quickly as possible.

For the second finding related to IT controls, the FCC's IT team is committed to addressing the recommendations identified by the auditors in the areas of risk management, information security continuous monitoring, and identity and access management. The FCC is working on corrective actions already; ongoing efforts include the following initiatives. The FCC's IT team is currently supporting the Commission's implementation of a fully integrated Enterprise Risk Management (ERM) program that will ensure that information security risks are identified at the Bureau and Office level. Integrating ERM will help the FCC obtain an enterprise-wide view of its risks to identify potential commonalities in areas of concern across the FCC. The FCC's IT team will also focus attention on completing thorough system authorizations and collaborating with IT system owners to address and remediate critical risks in a timely manner. Furthermore, reducing system vulnerabilities through a mature patch-management process while continuing efforts to modernize the FCC's legacy applications are important ongoing initiatives for the FCC's IT team. Finally, during FY 2018, the FCC's IT team will also prioritize the implementation of an automated identity and access management solution to streamline current manual processes and minimize human error.

We look forward to working in FY 2018 to resolve the FY 2017 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



Kathleen Heuer
Chief Financial Officer
Office of the Managing Director



Christine Calvosa
Acting Chief Information Officer
Office of the Managing Director

PRINCIPAL STATEMENTS

FEDERAL COMMUNICATIONS COMMISSION CONSOLIDATED BALANCE SHEET

As of September 30, 2017 and 2016

(Dollars in thousands)

	<u>FY 2017</u>	<u>FY 2016</u>
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 12,790,101	\$ 3,568,793
Investments (Note 5)	7,101,239	8,022,992
Accounts receivable (Note 6)	491	506
Other	4,373	3,740
Total intragovernmental	<u>19,896,204</u>	<u>11,596,031</u>
Cash and other monetary assets (Note 4)	113,743	9,095,208
Accounts receivable, net (Note 6)	718,905	927,444
General property, plant, and equipment, net	62,117	48,426
Other	13,024	13,024
Total assets	<u>\$ 20,803,993</u>	<u>\$ 21,680,133</u>
Liabilities (Note 7):		
Intragovernmental:		
Accounts payable	\$ 534	\$ 676
Other (Note 8)		
Custodial	8,637,202	3,033,683
Other	5,665	4,782
Total other	<u>8,642,867</u>	<u>3,038,465</u>
Total intragovernmental	8,643,401	3,039,141
Accounts payable	264,016	199,051
Federal employee and veteran benefits	2,978	2,838
Other (Note 8)		
Deferred revenue	2,114,141	360,718
Prepaid contributions	42,852	53,390
Accrued liabilities for Universal Service	515,910	549,167
Deposit/Unapplied liability	-	8,949,194
Other	32,163	29,464
Total other	<u>2,705,066</u>	<u>9,941,933</u>
Total liabilities	<u>\$ 11,615,461</u>	<u>\$ 13,182,963</u>
Commitments and contingencies (Note 9)		
Net position:		
Unexpended appropriations - All Other Funds	\$ 2,820	\$ 2,832
Cumulative results of operations - Funds from Dedicated Collections (Note 10)	8,907,714	8,279,799
Cumulative results of operations - All Other Funds	277,998	214,539
Total net position	<u>\$ 9,188,532</u>	<u>\$ 8,497,170</u>
Total liabilities and net position	<u>\$ 20,803,993</u>	<u>\$ 21,680,133</u>

The accompanying notes are an integral part of these statements.

**FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF NET COST**

For the Years Ended September 30, 2017 and 2016
(Dollars in thousands)

	<u>FY 2017</u>	<u>FY 2016</u>
Program costs (Note 11):		
Promoting Economic Growth and National Leadership:		
Total Gross Cost	\$ 5,891,473	\$ 7,153,421
Protecting Public Interest Goals:		
Total Gross Cost	74,314	79,543
Making Networks Work for Everyone		
Total Gross Cost	4,590,446	3,040,999
Promoting Operational Excellence:		
Total Gross Cost	118,497	139,612
Total Program Costs	<u>\$ 10,674,730</u>	<u>\$ 10,413,575</u>
Less: earned revenues not attributed to programs	<u>(518,063)</u>	<u>(536,954)</u>
Net cost of operations	<u>\$ 10,156,667</u>	<u>\$ 9,876,621</u>

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, 2017 and 2016
(Dollars in thousands)

	FY 2017			FY 2016		
	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	\$ 8,279,799	\$ 214,539	\$ 8,494,338	\$ 8,280,330	\$ 165,849	\$ 8,446,179
Budgetary Financing Sources:						
Appropriations used	-	12	12	-	36	36
Non-exchange revenue	9,111,745	-	9,111,745	9,934,946	-	9,934,946
Transfers in/out without reimbursement	1,750,000	-	1,750,000	-	-	-
Other	(242)	-	(242)	1	-	1
Other Financing Sources (Non Exchange):						
Imputed financing	-	9,974	9,974	-	12,950	12,950
Other	-	(23,448)	(23,448)	-	(23,153)	(23,153)
Total Financing Sources	10,861,503	(13,462)	10,848,041	9,934,947	(10,167)	9,924,780
Net Cost of Operations	10,233,588	(76,921)	10,156,667	9,935,478	(58,857)	9,876,621
Net Change	627,915	63,459	691,374	(531)	48,690	48,159
Cumulative Results of Operations	8,907,714	277,998	9,185,712	8,279,799	214,539	8,494,338
Unexpended Appropriations:						
Beginning Balances	-	2,832	2,832	-	2,868	2,868
Budgetary Financing Sources:						
Appropriations used	-	(12)	(12)	-	(36)	(36)
Total Budgetary Financing Sources	-	(12)	(12)	-	(36)	(36)
Total Unexpended Appropriations	-	2,820	2,820	-	2,832	2,832
Net Position	<u>\$ 8,907,714</u>	<u>\$ 280,818</u>	<u>\$ 9,188,532</u>	<u>\$ 8,279,799</u>	<u>\$ 217,371</u>	<u>\$ 8,497,170</u>

The accompanying notes are an integral part of these statements.

**FEDERAL COMMUNICATIONS COMMISSION
COMBINED STATEMENT OF BUDGETARY RESOURCES**

For the Years Ended September 30, 2017 and 2016
(Dollars in thousands)

	<u>FY 2017</u>	<u>FY 2016</u>
Budgetary Resources:		
Unobligated balance brought forward, Oct 1	\$ (1,305,748)	\$ (3,772,841)
Recoveries of prior year unpaid obligations	804,720	780,225
Other changes in unobligated balance (+ or -)	91,965	35,922
Unobligated balance from prior year budget authority, net	(409,063)	(2,956,694)
Appropriations (discretionary and mandatory)	10,853,696	9,974,105
Spending authority from offsetting collections (discretionary and mandatory)	473,741	501,541
Total budgetary resources	<u>\$ 10,918,374</u>	<u>\$ 7,518,952</u>
Status of Budgetary Resources:		
New obligations and upward adjustments (total) (Note 13)	\$ 16,599,962	\$ 8,824,700
Unobligated balance, end of year:		
Apportioned, unexpired accounts	1,939,386	237,212
Exempt from apportionment, unexpired accounts (Note 1 A.)	(7,628,102)	(1,552,492)
Unapportioned, unexpired account	6,441	8,237
Unexpired unobligated balance, end of year	(5,682,275)	(1,307,043)
Expired unobligated balance, end of year	687	1,295
Unobligated balance, end of year (total)	<u>(5,681,588)</u>	<u>(1,305,748)</u>
Total status of budgetary resources	<u>\$ 10,918,374</u>	<u>\$ 7,518,952</u>
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, Oct 1	\$ 9,612,053	\$ 12,122,027
New obligations and upward adjustments	16,599,962	8,824,700
Outlays (gross) (-)	(10,701,004)	(10,554,448)
Recoveries of prior year unpaid obligations (-)	(804,720)	(780,225)
Unpaid obligations, end of year	14,706,291	9,612,054
Uncollected payments:		
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(2,076)	(2,250)
Change in uncollected pymts, Fed sources (+ or -)	746	173
Uncollected pymts, Fed sources, end of year (-)	(1,330)	(2,077)
Memorandum (non-add) entries		
Obligated balance, start of year (+ or -)	<u>\$ 9,609,977</u>	<u>\$ 12,119,777</u>
Obligated balance, end of year (net)	<u>\$ 14,704,961</u>	<u>\$ 9,609,977</u>
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	\$ 11,327,437	\$ 10,475,646
Actual offsetting collections (discretionary and mandatory) (-)	(575,832)	(541,885)
Change in uncollected payments, Federal sources (discretionary and mandatory) (+ or -)	746	173
Recoveries of prior year paid obligation (discretionary and mandatory)	91,965	35,922
Budget Authority, net (total) (discretionary and mandatory)	<u>\$ 10,844,316</u>	<u>\$ 9,969,856</u>
Outlays, gross (discretionary and mandatory)	\$ 10,701,004	\$ 10,554,448
Actual offsetting collections (discretionary and mandatory) (-)	(575,832)	(541,885)
Outlays, net (total) (discretionary and mandatory)	10,125,172	10,012,563
Distributed offsetting receipts (-)	(96,232)	(92,804)
Agency outlays, net (discretionary and mandatory)	<u>\$ 10,028,940</u>	<u>\$ 9,919,759</u>

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY

For the Years Ended September 30, 2017 and 2016

(Dollars in thousands)

	<u>FY 2017</u>	<u>FY 2016</u>
Revenue Activity:		
Sources of Cash Collections:		
Spectrum Auctions	\$ 17,562,170	\$ 14,354,740
Fines and Penalties	28,069	42,099
Total Cash Collections	<u>17,590,239</u>	<u>14,396,839</u>
Accrual Adjustments (+/-)		
Spectrum Auctions	(21,321)	(3,334,631)
Fines and Penalties	(36,974)	26,696
Total Accrual Adjustments	<u>(58,295)</u>	<u>(3,307,935)</u>
Total Custodial Revenue (Note 18)	17,531,944	11,088,904
Disposition of Collections:		
Transferred to Others:		
U.S. Treasury	(28,069)	(48,452)
Public Safety Trust Fund (NTIA)	-	(8,430,058)
TV Broadcasters Relocation Fund (FCC)	(1,750,000)	-
(Increase)/Decrease in Amounts Yet to be Transferred (+/-)	(5,603,519)	(2,493,394)
Refunds and Other Payments		
Auctions Salaries & Expenses (FCC) (Note 1 S & Note 15)	(117,000)	(117,000)
Reverse Auction Winners (Note 1 Q)	(10,033,356)	-
Total Disposition of Collections	(17,531,944)	(11,088,904)
Net Custodial Activity	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

FOR THE YEARS ENDED SEPTEMBER 30, 2017 and 2016

(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 510 of Division E of the Consolidated Appropriations Act, 2017, P.L. 115–31, 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, 2018. 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 a 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, special, and deposit funds. The Commission may use the general and revolving funds to finance expenses, depending on budgetary availability. The special funds are used to account for dedicated collections. The deposit funds are used to hold amounts 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 the 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 the 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:

<u>PP&E Classification</u>	<u>Estimated Useful Lives (years)</u>
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 Lifeline, and TRS programs as well as certain programs within High Cost. 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, Alternative Connected America Model (A-CAM), Alaska Plan, Frozen Support in high cost areas, 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.

Note 1 – Summary of Significant Accounting Policies (continued)

J. Deferred Revenue (continued)

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.

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 7% 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 Savings 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 the Department of Labor.

Note 1 – Summary of Significant Accounting Policies (continued)

L. Leave

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

M. Exchange Revenue and Financing Sources

Regulatory Fee Offsetting Collections (Exchange) – The Omnibus Budget Reconciliation Act of 1993 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 \$356,711 for FY 2017 and \$384,012 for FY 2016 were achieved. The Commission collected \$9,379 above the required regulatory level in FY 2017 and \$4,249 in FY 2016. The cumulative amount collected above the required annual regulatory level is \$111,995 as of September 30, 2017. 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 for FY 2017 and FY 2016.

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 \$17,540,849 of custodial revenue (net of accrual adjustments) related to spectrum auctions in FY 2017 and \$11,020,109 in FY 2016. In FY 2017, the Commission paid \$10,033,356 of Incentive Auction proceeds to Reverse Auction winners and transferred \$1,750,000 to the TV Broadcasters Relocation Fund. In FY 2016, the Commission transferred custodial revenue from Auction 97 of \$8,430,058 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.

Note 1 – Summary of Significant Accounting Policies (continued)

M. Exchange Revenue and Financing Sources (continued)

Application Fees (Exchange) – Congress authorized the Commission (47 U.S.C. § 8) to collect application processing fees and directed the Commission to prescribe charges for certain types of application processing or authorization services over which the Commission has jurisdiction. Section 8(b) of the Act, as amended, requires the Commission to review and amend its application fees every two years. The amended fees (Schedule of Application Fees 14 U.S.C. § 1.1102 *et seq.*) reflect the net change in the Consumer Price Index for all Urban Consumers calculated over a specific period of time. Application fees are deposited in the Treasury and are not available for the Commission’s use. Application fee revenue totaled \$23,449 in FY 2017 and \$23,153 in FY 2016.

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 \$676 in FY 2017 and \$665 in FY 2016.

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 \$9,039,570 and \$9,879,389 were received in FY 2017 and FY 2016, 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 \$356,711 for FY 2017 and \$384,012 for FY 2016. Regulatory fee collections fully fund the no-year appropriations for FY 2017 and FY 2016.

Subsidy Estimates and Reestimates (Financing Source) – The Fair Credit Reporting Act (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 2017 and FY 2016, 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 2017 and FY 2016. The Commission did not receive an appropriation in FY 2017 and FY 2016.

Note 1 – Summary of Significant Accounting Policies (continued)

N. Reprogramming

In FY 2017, the Commission received approval to reprogram \$4,970 of prior year de-obligations to fund various auction related and non-auction related projects. Non-auction related projects include retroactive increase in the transit subsidy benefit, information technology investment for the Office of Engineering and Technology (OET), National Broadband Map project, and the transition to the electronic Official Personnel Folder program mandated by the Office of Personnel Management. Auction related projects include Integrated Spectrum Auction System (ISAS) modernization, and the implementation of an Enterprise Auction Search and Analytical Tool. 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.

O. Transactions with Related Parties

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

The Commission approves the administrative costs paid to these entities from the respective funds that they manage. The administrative costs cover expenses such as the salaries and benefits for the employees dedicated to managing the funds; rent and utilities for office space used; accounting and other financial reporting related services; and other management activities. All related party balances for the fiscal years ended September 30, 2017 and 2016 are listed below:

<u>Administrative Fees:</u>	<u>USF</u>	<u>TRS</u>	<u>NANP</u>	<u>Total</u>
FY 2017	\$ 181,076	\$ 10,728	\$ 6,459	\$ 198,263
FY 2016	\$ 158,881	\$ 10,008	\$ 5,923	\$ 174,812

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.

Note 1 – Summary of Significant Accounting Policies (continued)

Q. Incentive Auction

In FY 2017, the Commission completed both the reverse and forward auction of the Incentive Auction, which redistributes spectrum usage rights by utilizing market forces to align the use of broadcast spectrum with demands for wireless broadband. The Incentive Auction began on March 29, 2016. The release of the Incentive Auction Closing and Channel Reassignment Public Notice DA-17-314 on April 13, 2017, marked the completion of the Incentive Auction and the start of the 39-month post auction transition period.

Proceeds from the forward auction totaled \$19,318,073. During FY 2017, the Commission granted sufficient spectrum licenses to meet the minimum statutory threshold, and made \$10,033,356 incentive payments to the reverse auction winners. Authorized by the Middle Class Tax Relief and Job Creation Act of 2012 (Spectrum Act), the Commission transferred \$1,750,000 in forward auction proceeds to the TV Broadcasters Relocation Fund in FY 2017. The Commission shall reimburse costs reasonably incurred by TV broadcasters that are involuntarily reassigned to new channels as a result of the repacking process and by multichannel video programming distributors (MVPDs) in order to continue carrying the signals of such stations. Obligations, expenses and liabilities relating to approved reimbursements are expected to begin in FY 2018.

R. Rate of Return

In FY 2017, USF gave rate-of-return carriers the option to elect model based support that would provide a fixed amount of monthly support over ten years. In return, carriers agreed to meet specific build out obligations. During the year, 207 carriers accepted \$5,283,553 in support from the Alternative Connect America Cost Model (A-CAM) and 21 carriers accepted \$1,283,137 in support from the Alaska Plan. The disbursements for the A-CAM and Alaska Plan will be in monthly installments over a 10-year period.

S. Comparative Data

Consolidated Statement of Custodial Activity (SCA) – The presentation for Auction Salaries & Expenses has been revised according to the Federal Communications Commission Spectrum Auction Scenario approved by Treasury in FY 2017. This activity is reported under “Refunds and Other Payments.” Accordingly, the reclassification was made to FY 2016 SCA to be comparative.

Note 2 – Non-entity Assets

The following summarizes Non–entity Assets as of September 30, 2017 and 2016:

	<u>FY 2017</u>	<u>FY 2016</u>
Intragovernmental:		
Fund Balance with Treasury	\$ 10,710,394	\$ 3,291,722
Accounts Receivable	457	376
Total Intragovernmental	<u>10,710,851</u>	<u>3,292,098</u>
Cash and Other Monetary Assets	-	8,947,086
Accounts Receivable, Net	<u>24,410</u>	<u>60,583</u>
Total Non-entity Assets	<u>10,735,261</u>	<u>12,299,767</u>
Total Entity Assets	<u>10,068,732</u>	<u>9,380,366</u>
Total Assets	<u>\$ 20,803,993</u>	<u>\$ 21,680,133</u>

Non-entity Fund Balance with Treasury (FBWT) and Cash and Other Monetary Assets primarily represents auction deposits. Accounts receivable considered non-entity are for regulatory fees, application fees, fines and forfeitures, spectrum auctions, and International Telecommunications Settlement (ITS) charges.

Note 3 – Fund Balance with Treasury

The following summarizes FBWT as of September 30, 2017 and 2016:

<u>FY 2017</u>	Revolving				
	General Funds	Funds	Special Funds	Deposit Funds	Total
Unobligated Balance					
Available	\$ 112,232	\$ -	\$ 1,629,250	\$ -	\$ 1,741,482
Unavailable	136,212	9	120,750	-	256,971
Obligated Balance not yet Disbursed	81,254	-	-	-	81,254
Non-Budgetary FBWT	-	-	-	10,710,394	10,710,394
Total	<u>\$ 329,698</u>	<u>\$ 9</u>	<u>\$ 1,750,000</u>	<u>\$ 10,710,394</u>	<u>\$ 12,790,101</u>
<u>FY 2016</u>					
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	<u>\$ 277,067</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ 3,291,722</u>	<u>\$ 3,568,793</u>

General Funds – Includes the salaries and expense appropriation used to fund agency operations, the auction and reimbursable accounts, the credit reform program account, and other 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.

Special Funds – Includes funds from the TV Broadcaster Relocation fund. These funds are for relocation costs reasonably incurred by broadcasters and MVPDs who are involuntarily reassigned to new channels or incur costs as a result of the Incentive Auction post-auction repackaging process.

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, 2017 and 2016:

	<u>FY 2017</u>	<u>FY 2016</u>
Cash and Other Monetary Assets	<u>\$ 113,743</u>	<u>\$ 9,095,208</u>

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 the 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 2017, Cash and Other Monetary Assets included \$111,066 in USF contributions and related accrued interest being held for distribution, \$2,677 in NANP deposits and related accrued interest.

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.

Note 5 – Investments

The following summarizes Investments as of September 30, 2017 and 2016:

	Purchase Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosures
<u>FY 2017</u>						
Intragovernmental Securities:						
Marketable Securities						
Treasury Bills	\$ 1,959,505	EI	\$ 1,631	\$ -	\$ 1,961,136	\$ 1,961,232
Treasury Notes	5,124,411	EI	4,597	11,095	5,140,103	5,104,783
Total	<u>\$ 7,083,916</u>		<u>\$ 6,228</u>	<u>\$ 11,095</u>	<u>\$ 7,101,239</u>	<u>\$ 7,066,015</u>
<u>FY 2016</u>						
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	<u>\$ 8,002,970</u>		<u>\$ 7,290</u>	<u>\$ 12,732</u>	<u>\$ 8,022,992</u>	<u>\$ 8,026,401</u>

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 has been made to present market value in FY 2017 and FY 2016. 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, 2017 and 2016:

	<u>Intragovernmental</u>	<u>Public</u>	<u>Total</u>
<u>FY 2017</u>			
Gross Accounts Receivable	\$ 491	\$ 1,339,811	\$ 1,340,302
Allowance for Doubtful Accounts	-	(620,906)	(620,906)
Accounts Receivable, Net	<u>\$ 491</u>	<u>\$ 718,905</u>	<u>\$ 719,396</u>
<u>FY 2016</u>			
Gross Accounts Receivable	\$ 506	\$ 1,456,940	\$ 1,457,446
Allowance for Doubtful Accounts	-	(529,496)	(529,496)
Accounts Receivable, Net	<u>\$ 506</u>	<u>\$ 927,444</u>	<u>\$ 927,950</u>

The following summarizes accounts receivable by type as of September 30, 2017 and 2016:

	<u>FY 2017</u>			<u>FY 2016</u>		
	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Net</u>	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Net</u>
USF	\$ 986,993	\$ (299,472)	\$ 687,521	\$ 1,134,587	\$ (273,674)	\$ 860,913
COMAD - Schools and Libraries	151,246	(148,085)	3,161	121,743	(118,930)	2,813
Regulatory Fees	30,890	(23,725)	7,165	30,791	(24,421)	6,370
Spectrum Auction	8,707	(8,707)	-	21,127	(21,127)	-
Civil Monetary Penalties	148,190	(133,228)	14,962	135,412	(83,547)	51,865
Other	14,276	(7,689)	6,587	13,786	(7,797)	5,989
Total	<u>\$ 1,340,302</u>	<u>\$ (620,906)</u>	<u>\$ 719,396</u>	<u>\$ 1,457,446</u>	<u>\$ (529,496)</u>	<u>\$ 927,950</u>

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 recorded a 98% allowance rate in FY 2017 and FY 2016.

Note 7 – Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2017 and 2016:

	<u>FY 2017</u>	<u>FY 2016</u>
Intragovernmental:		
FECA Liability	\$ 536	\$ 560
Unemployment Liability	48	1
GSA Real Estate Taxes	2,995	2,148
Total Intragovernmental	<u>3,579</u>	<u>2,709</u>
Actuarial FECA Liability	2,978	2,838
Other:		
Unfunded Leave	17,540	18,629
Accrued Liabilities for Universal Service	515,910	549,167
Total liabilities not covered by budgetary resources	<u>540,007</u>	<u>573,343</u>
Total liabilities covered by budgetary resources	11,075,454	12,609,620
Total Liabilities	<u>\$ 11,615,461</u>	<u>\$ 13,182,963</u>

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, 2017 and 2016:

<u>FY 2017</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental			
Custodial Liability	\$ -	\$ 8,637,202	\$ 8,637,202
Other	-	5,665	5,665
Total Intragovernmental	<u>\$ -</u>	<u>\$ 8,642,867</u>	<u>\$ 8,642,867</u>
Deferred Revenue	\$ 28,576	\$ 2,085,565	\$ 2,114,141
Prepaid Contributions	-	42,852	42,852
Accrued Liabilities for Universal Service	-	515,910	515,910
Other	-	32,163	32,163
Total Other	<u>\$ 28,576</u>	<u>\$ 2,676,490</u>	<u>\$ 2,705,066</u>
<u>FY 2016</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental			
Custodial Liability	\$ -	\$ 3,033,683	\$ 3,033,683
Other	-	4,782	4,782
Total Intragovernmental	<u>\$ -</u>	<u>\$ 3,038,465</u>	<u>\$ 3,038,465</u>
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	<u>\$ 31,948</u>	<u>\$ 9,909,985</u>	<u>\$ 9,941,933</u>

The Custodial Liability includes both cash collected and accounts receivable 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 multi-year 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 Lifeline and certain programs within High Cost and TRS. The obligations for these subsidies are not recognized until payment files are approved in the subsequent month. Deposit Liability represents upfront payments for the forward auction of the Incentive Auction deposited in the 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's current headquarters lease expired on October 17, 2017. On December 18, 2016, the General Services Administration (GSA) signed a lease with a new lessor contemplating the Commission's occupancy of a newly built facility. The FCC's current lessor, a bidder on the solicitation for the new lease, had filed protests of the lease solicitation, first with GSA, and then with the U.S. Government Accountability Office (GAO), which were denied. The current lessor thereafter filed a solicitation protest with the U.S. Court of Federal Claims (COFC), which was supplemented with other pre-award protest issues, and that protest was denied in November 2016. Upon award of the new lease to a different lessor, the current lessor sought an injunction against performance of the new lease while it pursued an appeal in the U.S. Court of Appeals for the Federal Circuit (CAFC) against the adverse COFC decision. The appeal on the merits and request for injunctive relief remain pending in CAFC, but has been stayed while the parties attempt to negotiate a settlement. The Commission cannot move to the new facility without resolution of the case, and, in any event, without more progress on construction of the new building, it is unable to move to the new building. The GSA is negotiating with the current lessor for a lease extension, and at this juncture is unable to provide the Commission with the impact on rent cost for the extension.

In accordance with Department of Energy's (DOE's) Federal Energy Management Program (FEMP) Energy Savings Performance Contracts (ESPCs), the Commission entered into a contract with Honeywell Building Solutions, Inc. (HBS) in the third quarter of FY 2017 to construct and install infrastructure in four facilities (Livermore CA, Waipahu HI, Powder Springs GA, and Columbia MD). The contract with HBS is a fixed price and performance-based contract that is paid over time through generated energy cost and operational savings. It enables FCC to fund energy saving projects with up-front capital and a financing arrangement with HBS through the remaining implementation period. In the event of cancelling the task order before the end of FY 2037, the Commission shall remain liable for the project's outstanding principal balance along with a two percent (2%) termination premium. The likelihood of the termination is remote as of September 30, 2017.

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, 2017, 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.

Pursuant to the Spectrum Act, the Commission shall reimburse relocation costs reasonably incurred by TV Broadcasters and MVPDs who are involuntarily reassigned to new channels or incur costs as a result of the Incentive Auctions post-auction repacking process. These reimbursement costs are accounted for in the U.S. Budget as the “TV Broadcaster Relocation Fund” which is funded by forward auction proceeds. The Commission currently recognizes the transfer to the TV Broadcaster Relocation Fund as Transfers in without reimbursement on its Statement of Changes in Net Position.

The Commission had no activity related to Gifts and Bequests in FY 2017 and FY 2016.

The following summarizes the significant assets, liabilities, and related costs incurred related to the USF Program and the TV Broadcaster Relocation Fund as of September 30, 2017 and 2016:

Note 10 – Funds from Dedicated Collections (Continued)

<u>FY 2017</u>	<u>TV Broadcaster Relocation Fund</u>	<u>Universal Service Fund</u>	<u>Total Funds from Dedicated Collections</u>
Balance Sheet			
Assets:			
Fund Balance with Treasury	\$ 1,750,000	\$ -	\$ 1,750,000
Investments	-	7,101,239	7,101,239
Cash and other monetary assets	-	111,066	111,066
Accounts receivable, net	-	691,607	691,607
General property, plant, and equipment, net	-	36,670	36,670
Other assets	-	13,024	13,024
Total assets	<u>\$ 1,750,000</u>	<u>\$ 7,953,606</u>	<u>\$ 9,703,606</u>
Liabilities:			
Accounts payable	\$ -	\$ 229,878	\$ 229,878
Deferred revenue	-	7,268	7,268
Prepaid contributions	-	42,836	42,836
Accrued liabilities	-	515,910	515,910
Total liabilities	<u>\$ -</u>	<u>\$ 795,892</u>	<u>\$ 795,892</u>
Cumulative results of operations	<u>\$ 1,750,000</u>	<u>\$ 7,157,714</u>	<u>\$ 8,907,714</u>
Total liabilities and net position	<u>\$ 1,750,000</u>	<u>\$ 7,953,606</u>	<u>\$ 9,703,606</u>
Statement of Net Cost			
Net cost of operations	<u>\$ -</u>	<u>\$ 10,233,588</u>	<u>\$ 10,233,588</u>
Statement of Changes in Net Position			
Net position beginning of period	\$ -	\$ 8,279,799	\$ 8,279,799
Non-exchange revenue	-	9,111,745	9,111,745
Transfers in/out without reimbursement	1,750,000	-	1,750,000
Other financing sources	-	(242)	(242)
Net cost of operations	-	10,233,588	10,233,588
Change in net position	<u>\$ 1,750,000</u>	<u>\$ (1,122,085)</u>	<u>\$ 627,915</u>
Net position end of period	<u>\$ 1,750,000</u>	<u>\$ 7,157,714</u>	<u>\$ 8,907,714</u>

Note 10 – Funds from Dedicated Collections (Continued)

<u>FY 2016</u>	<u>TV Broadcaster Relocation Fund</u>	<u>Universal Service Fund</u>	<u>Total Funds from Dedicated Collections</u>
Balance Sheet			
Assets:			
Investments	\$ -	\$ 8,022,992	\$ 8,022,992
Cash and other monetary assets	-	145,575	145,575
Accounts receivable, net	-	864,642	864,642
General property, plant, and equipment, net	-	29,081	29,081
Other assets	-	13,024	13,024
Total assets	<u>\$ -</u>	<u>\$ 9,075,314</u>	<u>\$ 9,075,314</u>
Liabilities:			
Accounts payable	\$ -	\$ 185,598	\$ 185,598
Deferred revenue	-	7,377	7,377
Prepaid contributions	-	53,373	53,373
Accrued liabilities	-	549,167	549,167
Total liabilities	<u>\$ -</u>	<u>\$ 795,515</u>	<u>\$ 795,515</u>
Cumulative results of operations		<u>\$ 8,279,799</u>	<u>\$ 8,279,799</u>
Total liabilities and net position	<u>\$ -</u>	<u>\$ 9,075,314</u>	<u>\$ 9,075,314</u>
Statement of Net Cost			
Net cost of operations	<u>\$ -</u>	<u>\$ 9,935,478</u>	<u>\$ 9,935,478</u>
Statement of Changes in Net Position			
Net position beginning of period	\$ -	\$ 8,280,330	\$ 8,280,330
Non-exchange revenue	-	9,934,946	9,934,946
Other financing sources	-	1	1
Net cost of operations	-	9,935,478	9,935,478
Change in net position	<u>-</u>	<u>(531)</u>	<u>(531)</u>
Net position end of period	<u>\$ -</u>	<u>\$ 8,279,799</u>	<u>\$ 8,279,799</u>

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, 2017 and 2016 are the following:

FY 2017

Program Costs	<u>Intragovernmental</u>	<u>Public</u>	<u>Total</u>
Promoting Economic Growth and National Leadership	\$ 24,825	\$ 5,866,648	\$ 5,891,473
Protecting Public Interest Goals	19,543	54,771	74,314
Making Networks Work for Everyone	38,770	4,551,676	4,590,446
Promoting Operational Excellence	31,163	87,334	118,497
Total	<u>\$ 114,301</u>	<u>\$ 10,560,429</u>	<u>\$ 10,674,730</u>
Total Earned Revenue	<u>\$ 677</u>	<u>\$ 517,386</u>	<u>\$ 518,063</u>

FY 2016

Program Costs	<u>Intragovernmental</u>	<u>Public</u>	<u>Total</u>
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	<u>\$ 119,342</u>	<u>\$ 10,294,233</u>	<u>\$ 10,413,575</u>
Total Earned Revenue	<u>\$ 821</u>	<u>\$ 536,133</u>	<u>\$ 536,954</u>

Note 12 – Available Borrowing Authority, End of the Period

As of September 30, 2017, the Commission did not have any available 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, 2017 and 2016:

	<u>FY 2017</u>	<u>FY 2016</u>
Direct:		
Category B	\$ 1,598,981	\$ 1,500,893
Exempt from Apportionment	<u>15,000,278</u>	<u>7,323,133</u>
Total Direct	16,599,259	8,824,026
Reimbursable:		
Category B	<u>703</u>	<u>674</u>
New obligations and upward adjustments (total)	<u><u>\$ 16,599,962</u></u>	<u><u>\$ 8,824,700</u></u>

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 \$14,466,783 as of September 30, 2017 and \$9,415,759 as of September 30, 2016.

Note 15 – Permanent Indefinite Appropriations

The Commission has permanent indefinite appropriations available to fund its universal service programs, subsidy costs incurred under credit reform programs, and the development and implementation costs related to the 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.

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

Pursuant to 47 U.S.C § 309(j)(8)(B), the FCC can retain proceeds from spectrum auctions for amounts that may be necessary for the costs of developing and implementing the competitive auction program.

Note 15 – Permanent Indefinite Appropriations (Continued)

These retained proceeds are offsetting collections that remain available until expended. Notwithstanding 47 U.S.C § 309(j)(8)(B), for FY 2017 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 \$356,711 in FY 2017 and \$384,012 in FY 2016 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 2016 and the amounts presented in the FY 2018 President’s Budget. The FY 2019 *Budget of the United States Government* (President’s Budget) with actual numbers for FY 2017 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, 2017 and 2016:

	<u>FY 2017</u>	<u>FY 2016</u>
Resources Used to Finance Activities:		
Budgetary Resources Obligated:		
New obligations and upward adjustments	\$ 16,599,962	\$ 8,824,700
Less: spending authority from offsetting collections and recoveries	<u>1,370,426</u>	<u>1,317,688</u>
Obligations net of offsetting collections and recoveries	15,229,536	7,507,012
Less: offsetting receipts	<u>96,232</u>	<u>92,804</u>
Net obligations	15,133,304	7,414,208
Imputed financing	9,974	12,950
Other Resources	<u>(23,690)</u>	<u>(23,152)</u>
Total Resources Used to Finance Activities	15,119,588	7,404,006
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Undelivered Orders	(5,051,024)	2,480,041
Resources that fund expenses recognized in prior periods	(1,065)	(838)
Budgetary offsetting collections and receipts that do not affect net cost of operations	96,236	92,808
Resources that finance the acquisition of assets	(29,217)	(31,204)
Other	<u>1,255</u>	<u>11,865</u>
Total Resources Used to Finance Items not Part of the Net Cost of Operations	<u>(4,983,815)</u>	<u>2,552,672</u>
Total Resources Used to Finance the Net Cost of Operations	10,135,773	9,956,678
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Increase in annual leave liability	(1,040)	(832)
Increase in exchange revenue receivable from the public	(4,767)	(2,187)
Depreciation and amortization	17,008	12,366
Other (+/-)	<u>9,693</u>	<u>(89,404)</u>
Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period	<u>20,894</u>	<u>(80,057)</u>
Net Cost of Operations	<u>\$ 10,156,667</u>	<u>\$ 9,876,621</u>

Note 20 – Subsequent Event

On October 16, 2017, the Commission released a Public Notice (PN) regarding the initial reimbursement allocation of the TV Broadcaster Relocation Fund for eligible broadcasters and MVPDs. In the PN (DA- 17-1015), the Commission established a total allocation slightly over \$1 billion to reimburse eligible entities for expenses related to the construction of station facilities on reassigned channels. Obligations, expenses and liabilities relating to approved reimbursements began in FY 2018.

Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION – SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

For the Years Ended September 30, 2017 and 2016
(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, Television Broadcasters Relocation Fund (TV), and USF. S&E represents general salaries and expenses of the Commission. Auctions include salaries and expenses of the spectrum auction program. TV represents reimbursements for Television broadcasters and MVPDs relocation costs due to the Incentive Auction. USF includes Universal Service Fund and Telecommunications Relay Service Funds. Non-major budgetary accounts are aggregated under the Other column.

Reflected in the chart below are the major budgetary accounts of the Commission that are aggregated and presented in the September 30, 2017 and 2016 Combined Statement of Budgetary Resources.

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

FY 2017

	S&E	Auctions	TV	USF	Other	Total
Budgetary Resources:						
Unobligated balance brought forward, October 1	\$ 67,191	\$ 15,790	\$ -	\$ (1,391,444)	\$ 2,715	\$ (1,305,748)
Recoveries of prior year unpaid obligations	5,196	2,538	-	796,957	29	804,720
Other changes in unobligated balance (+ or -)	1,173	41	-	90,751	-	91,965
Unobligated balance from prior year budget authority, net	73,560	18,369	-	(503,736)	2,744	(409,063)
Appropriations (discretionary and mandatory)	-	-	1,629,250	9,224,446	-	10,853,696
Spending authority from offsetting collections (discretionary and mandatory)	356,737	117,000	-	-	4	473,741
Total budgetary resources	\$ 430,297	\$ 135,369	\$ 1,629,250	\$ 8,720,710	\$ 2,748	\$ 10,918,374

Status of Budgetary Resources:

New obligations and upward adjustments (total)	\$ 343,028	\$ 105,995	\$ -	\$ 16,150,908	\$ 31	\$ 16,599,962
Unobligated balance, end of year:						
Apportioned, unexpired accounts	83,181	26,372	1,629,250	197,904	2,679	1,939,386
Exempt from apportionment, unexpired accounts	-	-	-	(7,628,102)	-	(7,628,102)
Unapportioned, unexpired accounts	3,412	2,991	-	-	38	6,441
Unexpired unobligated balance, end of year	86,593	29,363	1,629,250	(7,430,198)	2,717	(5,682,275)
Expired unobligated balance, end of year	676	11	-	-	-	687
Unobligated balance, end of year (total)	87,269	29,374	1,629,250	(7,430,198)	2,717	(5,681,588)
Total status of budgetary resources	\$ 430,297	\$ 135,369	\$ 1,629,250	\$ 8,720,710	\$ 2,748	\$ 10,918,374

Change in Obligated Balance:

Unpaid obligations:

Unpaid obligations, brought forward, Oct 1	\$ 39,757	\$ 33,860	\$ -	\$ 9,538,314	\$ 122	\$ 9,612,053
New obligations and upward adjustments	343,028	105,995	-	16,150,908	31	16,599,962
Outlays (gross) (-)	(330,166)	(102,267)	-	(10,268,558)	(13)	(10,701,004)
Recoveries of prior year unpaid obligations (-)	(5,196)	(2,538)	-	(796,957)	(29)	(804,720)
Unpaid obligations, end of year	47,423	35,050	-	14,623,707	111	14,706,291
Uncollected payments:						
Uncollected pymts, Fed sources, brought forward, Oct 1 (-)	(2,076)	-	-	-	-	(2,076)
Change in uncollected pymts, Fed sources (+ or -)	746	-	-	-	-	746
Uncollected pymts, Fed sources, end of year (-)	(1,330)	-	-	-	-	(1,330)
Memorandum (non-add) entries						
Obligated balance, start of year (+ or -)	\$ 37,681	\$ 33,860	\$ -	\$ 9,538,314	\$ 122	\$ 9,609,977
Obligated balance, end of year (net)	\$ 46,093	\$ 35,050	\$ -	\$ 14,623,707	\$ 111	\$ 14,704,961

Budget Authority and Outlays, Net:

Budget authority, gross (discretionary and mandatory)	\$ 356,737	\$ 117,000	\$ 1,629,250	\$ 9,224,446	\$ 4	\$ 11,327,437
Actual offsetting collections (discretionary and mandatory) (-)	(368,036)	(117,041)	-	(90,751)	(4)	(575,832)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory) (+ or -)	746	-	-	-	-	746
Recoveries of prior year paid obligations (discretionary and mandatory)	1,173	41	-	90,751	-	91,965
Budget Authority, net (discretionary and mandatory)	\$ (9,380)	\$ -	\$ 1,629,250	\$ 9,224,446	\$ -	\$ 10,844,316
Outlays, gross (discretionary and mandatory)	\$ 330,166	\$ 102,267	\$ -	\$ 10,268,558	\$ 13	\$ 10,701,004
Actual offsetting collections (discretionary and mandatory) (-)	(368,036)	(117,041)	-	(90,751)	(4)	(575,832)
Outlays, net (discretionary and mandatory)	(37,870)	(14,774)	-	10,177,807	9	10,125,172
Distributed offsetting receipts (-)	(25,999)	-	-	(70,233)	-	(96,232)
Agency outlays, net (discretionary and mandatory)	\$ (63,869)	\$ (14,774)	\$ -	\$ 10,107,574	\$ 9	\$ 10,028,940

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 (discretionary 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

3. OTHER INFORMATION (UNAUDITED)

Summary of Financial Statement Audit

Financial Statement Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
	0	0	0	0	0
Total Material Weaknesses	0	0	0	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
	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	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

Payment Integrity

The Federal Communications Commission (FCC or Commission) incorporated improper payment analysis and testing into processes implemented in Fiscal Year (FY) 2017 in compliance with federal statutes⁹ 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).

The following link contains additional information on improper payments reported across the Federal government, including information reported by the FCC in prior fiscal years: <https://paymentaccuracy.gov/>.

The Commission has nine 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)
- Incentive Auction – Winning Bidders (IA-WB)¹⁰

I. Payment Reporting

Table 1 below reports the improper payment rates for USF-HC, USF-S&L, USF-LL and TRS. The USF-HC and USF-LL programs established base line error rates this fiscal year. USF-S&L established a baseline error rate in FY 2015, and TRS is using an OMB-approved alternative methodology.

Table 1 below provides total outlays, estimated amounts of payments improperly paid (broken down by overpayments and underpayments), estimated total improper payments, estimated improper payment percentages, estimated amount of proper payments, estimated proper payment percentages, and reduction targets for FY 2018. In Table 1 below, the corresponding percentage of overpayments and underpayments is the same as the improper payment percentage for each program, except USF-HC, which has a .01 percent for overpayments and .04 percent for underpayments.

Besides the programs listed in Table 1, the FCC has not identified any of its other programs as being susceptible to significant improper payments. Furthermore, the Commission did not make payments to beneficiaries who then redistributed the Federal money to other recipients; as such, the Commission does not have any improper payments to report based on payments made by its beneficiaries.

⁹ Improper Payments Information Act (IPIA) of 2002, Improper Payments Elimination and Recovery Act (IPERA) of 2010, and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012.

¹⁰ On March 29, 2016, the FCC commenced the first-ever “incentive auction” designed to repurpose spectrum for new uses. This auction included a one-time payment to broadcasters that relinquished their spectrum usage rights.

Table 1
Improper Payment (IP) for Current Year and Reduction Targets for FY 2018
(\$ in millions)

Program	Outlays ¹¹	Estimated Over-payments	Estimated Under-payments	Estimated Improper Payments	Estimated Improper Payment %	Estimated Proper Payments	Estimated Proper Payment %	Reduction Targets FY 2018
USF – HC	\$4,652	\$.43	\$2.07	\$2.50	.05%	\$4,649.50	99.95%	.04%
USF - S&L	\$2,388	\$103.51	\$0.00	\$103.51	4.34%	\$2,284.49	95.66%	4.00%
USF – LL	\$1,534	\$336.39	\$0.00	\$336.39	21.93%	\$1,197.61	78.07%	17.00%
TRS	\$1,075	\$0.00	\$0.00	\$0.00	0.00%	\$1,075.00	100.00%	0.00%
TOTAL¹²	\$9,649	\$440.33	\$2.07	\$442.40	4.58%	\$9,206.60	95.42%	3.00%

¹¹ In the case of 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.

¹² Please note as mentioned on the first page of this section, the FCC has established baseline error rates for USF-HC, USF-S&L, and USF-LL. The FCC is still working towards establishing a baseline error rate for TRS. As such, the improper payment error rate for TRS in this table does not represent the baselines error rate for that FCC program yet. The FCC should have a baseline error rate for TRS in its FY 2018 report.

Root Cause for Overpayments and Underpayments

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. Therefore, these payments are categorized under an “Other Reason” category. The “Other Reason” categories are defined in Table 2 below and detailed in the subsequent charts. 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 IP” category.

Table 2
Root Cause for Overpayments and Underpayments
(\$ 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	\$0.00	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	\$38.35	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 IP (see tables below)	\$0.00	N/A	\$7.32	N/A	\$323.37	N/A	\$0.00	N/A	
Other Reason (a) (Incorrect Part 36 and Incorrect Revenues)	\$0.43	\$2.07	N/A	N/A	\$0.00	N/A	N/A	N/A	
Other Reason (b) (see table below)	\$0.00	N/A	\$57.84	N/A	\$0.00	N/A	N/A	N/A	
Other Reason (c) (Duplicate Subscriber)	N/A	N/A	N/A	N/A	\$13.02	N/A	N/A	N/A	
TOTAL	\$0.43	\$2.07	\$103.51	N/A	\$336.39	N/A	\$0.00	\$0.00	

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

Insufficient Documentation to Determine IP (USF-S&L)	Improper Payments Amounts	
	Overpayments	Underpayments
Multiple Documents Missing	\$2.08	N/A
Proof of Payment or Proof of Deposit	\$0.02	N/A
Competitive Bidding	\$5.22	N/A
Total Insufficient Documentation to Determine IP	\$7.32	N/A

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

Insufficient Documentation to Determine IP (USF-LL)	Improper Payments Amounts	
	Overpayments	Underpayments
Unsupported Subscriber Count	\$6.99	N/A
Missing Subscriber Data	\$0.73	N/A
Inadequate Certifications	\$299.92	N/A
One Per Household Rule	\$1.44	N/A
Eligibility Documentation	\$14.29	N/A
Total Insufficient Documentation to Determine IP	\$323.37	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	\$27.25	N/A
Discount Calculation Error	\$1.73	N/A
Failure to Pay Non-Discount Share	\$4.92	N/A
Goods/Services Received by Ineligible Entity	\$0.85	N/A
Recipient of Service Errors	\$22.02	N/A
Internal Connections/Not Installed	\$1.05	N/A
Service Provider Lowest Corresponding Price Confirmation/No Certification Billed Entity Applicant Reimbursement/Service Provider Invoice	\$0.02	N/A
Total Other Errors	\$57.84	N/A

Corrective Action Plans for Reducing the Estimated IP Rate and Amount

USF-S&L

Administrative or Process Errors Made by Other Party – The Universal Service Administrative Company (USAC) is working on modifying its invoicing procedures to reflect a proactive approach. This improved approach is expected to identify and correct certain errors more efficiently. USAC will complete a version of these procedures for review by November 17, 2017.

Insufficient Documentation to Determine IP, which includes multiple documents missing, proof of payment or proof of deposit, competitive bidding – As a result of root cause analysis, USAC has implemented outreach efforts designed to reduce improper payments and the potential for errors identified during audits and Payment Quality Assurance reviews. These outreach efforts include the creation of the Circle of Life Common Audit Finding webpage that describes common audit findings and suggests practices to prevent future findings. For additional information, see: <http://usac.org/about/about/program-integrity/bcap.aspx>. USAC plans to complete updates to these previously instituted corrective actions by March 31, 2018.

Other Reasons, which includes, competitive bidding, discount calculation error, failure to pay non-discount share, goods/services received by ineligible entity, recipient of service errors, internal connections not installed, service provider lowest corresponding price confirmation, no certification on billed entity applicant reimbursement form or service provider invoice – Within the E-rate Productivity Center (EPC) system, USAC developed a Knowledge Base Center that serves as a resource to assist participants with requesting universal service support and to serve as an aid for completing program forms. Additionally, “Resources and Tools” are available on USAC’s website that provide guidance on various aspects of the program. In future funding years, USAC and the Commission will continue to investigate additional ways to reduce errors. USAC plans to complete these actions by December 1, 2017.

USF-LL

Insufficient Documentation to Determine IP, which includes unsupported subscriber count, missing subscriber data, inadequate certifications, and one per household rule violations – As a result of root cause analysis, USAC implemented outreach efforts designed to reduce improper payments and the potential for errors identified during audits and Payment Quality Assurance reviews. These outreach efforts include the creation of the Circle of Life Common Audit Finding webpage that describes common audit findings and suggests practices to prevent future findings. Missing subscriber data and inadequate/missing certifications are listed among the common audit findings for the program. The website provides examples and scenarios for each audit finding. For additional information, see: <http://usac.org/about/about/program-integrity/bcap.aspx>. Additional outreach efforts include newsletters and webinars that are used to educate carriers on rules and program requirements. USAC is also creating standardized certification and recertification forms that will resolve findings for insufficient certifications and disclosures, pending OMB approval. USAC plans to complete these actions by June 30, 2018.

Other Reasons, which includes duplicate subscribers – USAC will perform point of failure analysis by examining detailed audit data and create outreach content on USAC’s website that identifies areas of concern, provides guidance, and offers best practices for avoiding future findings. USAC plans to complete these actions by December 31, 2017.

II. Recapture of Improper Payments Reporting

The Commission performed payment recapture audits on all of its programs, and for those programs which identified improper payments, the Commission has already recovered the improper payment or is in the process of recovering the improper payments. All improper payments were deemed to be collectible. For any improper payments identified, the Commission is assessing the reason for the improper payment and will take corrective actions to prevent such improper payments from re-occurring, such as changing a business process, strengthening an internal control, or improving an existing rule, etc.

USF-Admin

In 2017, the Commission conducted two audits of USF-Admin, including an Agreed Upon Procedures (AUP) audit and a limited scope review of payroll internal controls (payroll review). During the AUP review, an exception was noted for one employee whose compensation exceeded the limits described in 47 C.F.R. § 54.715(b) of the Commission's rules. The AUP audit identified an improper payment in the amount of \$10,789. During the payroll review, a terminated employee remained on the payroll for two months after termination. The payroll review identified an improper payment in the amount of \$6,622. The total improper payments identified through the AUP audit and the payroll review have been recovered in full. In addition, improper payments in the amount of \$6,173 were identified due to improper use of the corporate credit card. 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. All of the improper payments have been recovered in full. The FCC will work with USAC to avoid a repeat of the issues described above. The Commission continues to identify this program as not susceptible to significant improper payments.

USF-HC, USF-LL, USF-RHC, USF-S&L

USAC completed 195 audits in FY 2017, of which 95 involved overpayments. Of these, the auditor has identified \$7,360,595 to be recovered. USAC completed recovery of overpayments for more than 64% of these audits by September 30, 2017 and is currently in the process of recovering the remaining amounts. As reported in Table 1, the FCC has identified USF-HC, USF-LL, and USF-S&L as susceptible to improper payments; however, the Commission continues to identify USF-RHC as not susceptible to significant improper payments. Listed below are the number of audits performed and the estimated recovery amounts, by program:

Program / Area	# Audits	# Audits with Overpayments	Total Estimated Amount to be Recovered
High Cost	43	22	\$2,640,087
Lifeline	45	28	\$21,431
Rural Health Care	22	1	\$112,819
Schools and Libraries	85	44	\$4,586,258
Total	195	95	\$7,360,595

TRS

The TRS Administrator, Rolka Loube (RL), conducted three scope audits for eight providers that focused on: Relay Services Data Request (RSDR) annual cost report submission audits (includes Video Relay Service (VRS), Internet Protocol Captioned Telephone Service, and/or Internet Protocol Relay Service);

TRS Provider Certification audits (includes VRS and/or IP CTS services); and a prior year audit finding remediation analysis. The audits covered the period of July 1, 2016 through June 30, 2017. Within the audit scopes of the eight providers, RL reported 27 findings. Four findings were certification audit related, and 23 were primarily related to incorrect categorization of costs within the annual RSDR report submissions by the TRS providers. All findings are currently being remediated by the providers including the creation and implementation of corrective action plans. Remediation of RSDR cost related findings will be validated by RL within the next annual submission by the providers. For all audits, the Commission will work with RL to ensure that all findings and observations are addressed and remediated by providers.

NANP

The administrator of NANP, Welch LLP, conducted an audit of the NANP to determine whether improper payments were made. This audit did not identify any improper payments, and the Commission continues to identify this program as not susceptible to significant improper payments.

FCC

The FCC conducted a payment recapture audit program of FCC operating expense, including both salary and non-salary expenditures. Under this examination, the FCC selected 50 payments for review of approximately \$232,000 in non-salary expenditures and 50 payments of approximately \$231,000 in salary expenditures. The salary disbursement samples were selected from a time period of July 10, 2016 to June 25, 2017, and the non-salary transactions were selected from a time period of July 10, 2016 to July 8, 2017. This audit did not identify any improper payments, and the Commission continues to identify this program as not susceptible to significant improper payments.

IA-WB

The Commission conducted a recapture audit on \$10 billion in winning bidder payments to determine whether those payments were timely, accurate and followed the Commission's policies and procedures. Under this examination, the FCC staff selected 43 payments totaling \$2 billion for testing purposes. The disbursements to winning bidders were reviewed during FY 2017, and the Commission review did not identify any improper payments during its review. The Commission identifies this program as not susceptible to significant improper payments.

Improper Payment Recaptures with and without Audit Programs

In Table 3 below, the FCC reports the amounts identified in the FY 2017 payment recapture audits. Overpayments identified and recaptured outside of the payment recapture audits may include, but are not limited to the following sources of information: improper payments identified through testing of statistical samples of payments conducted under IPERIA, known as the Payment Quality Assurance (PQA) program for USF; internal review processes (i.e. commitment adjustments, in-depth validations, etc.); FCC Office of Inspector General audits; self-reporting; or investigations. As directed by OMB, the chart includes overpayments identified and recovered in FY 2017, regardless of the time period the audit covered or when the overpayment occurred.

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 extensively from year to year. Because participants in the programs have the right to appeal the improper payment findings, the recovery rates, and therefore future targets, may be less than 50 percent annually. Moreover, participants may appeal multiple times at different levels of the process (e.g., to USAC and then to the Commission's Wireline Competition Bureau (WCB)). As such, it is unlikely that all identified overpayments can be recovered within the same fiscal year that the overpayments are identified.

Table 3
Improper Payment Recaptures with and without Audit Programs
(\$ in millions)

Overpayments Recaptured through Payment Recapture Audits														
	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	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target				
Program or Activity											Amt Identified	Amt Recaptured	Amt Identified	Amt Recaptured
USF-HC	N/A	N/A	N/A	N/A	N/A	\$2.640	\$2.080	78.79%	85.00%	90.00%	\$2.640	\$2.080	\$0.491 ¹³	\$0.412
USF – S&L	N/A	N/A	N/A	N/A	N/A	\$4.586	\$1.239	27.02%	40.00%	45.00%	\$4.586	\$1.239	\$33.172	\$1.538
USF - LL	N/A	N/A	N/A	N/A	N/A	\$0.021	\$0.011	52.38%	55.00%	60.00%	\$0.021	\$0.011	\$2.702 ¹⁴	\$0.776
USF - RHC	N/A	N/A	N/A	N/A	N/A	\$0.113	\$0.000	0.00%	65.00%	70.00%	\$0.113	\$0.000	\$0.000	\$0.000
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	\$0.031 ¹⁵	\$0.031
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	N/A	N/A	N/A	N/A	N/A	N/A	N/A	\$5.117 ¹⁶	\$5.117
TOTAL	N/A	N/A	N/A	N/A	N/A	\$7.361	\$3.330	45.24%	56.56%	61.56%	\$7.361 ¹⁷	\$3.330	\$41.513	\$7.874

¹³ The USF-HC Amount Identified Outside of Payment Recapture Audits includes the following: (1) A service provider erroneously received funds intended for another provider resulting in an improper payment of \$403,290. The error was found within a week of occurrence and the funds were properly disbursed to the correct service in the following month. (2) A service provider received funds that they were not entitled to because an unsubsidized competitor overlapped the Study Area Code (SAC) by 100%.

¹⁴ The USF-LL Amount Identified Outside of Payment Recapture Audits includes the following items: (1) Results of the Biennial Audits (In the *Lifeline Reform Order*, the FCC directed WCB, in conjunction with the Office of Managing Director, to develop standard procedures for independent biennial audits of Eligible Telecommunications Carriers (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) A service provider self-reported potential discrepancies in its prior submissions; the service provider determined that the amount of the anticipated revisions to the Lifeline Program reimbursements would be \$1.3 million.

¹⁵ The USF Admin Amount Identified Outside of Payment Recapture Audits includes the following items: (1) 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. (2) Results of the AUP Audit which identified an instance where an employee's gross wage exceeded the maximum allowable amount. (3) Results of the Corporate Assurance Audit which identified an instance of a terminated employee on the payroll for two months after termination due to a lack of communication.

¹⁶ The TRS Amount Identified Outside of Payment Recapture Audits includes a Consent Decree from FY 2017. In February of 2017, the FCC entered into a Consent Decree with two companies, which provide services to consumers funded by the TRS program, to resolve pending enforcement matters. The two companies have repaid \$5,116,527.09 to the TRS fund to date and will repay an additional \$1 million in future fiscal years.

¹⁷ The actual amount identified for recovery for recaptured audits is \$7,360,595, and this number when rounded is \$7.361 million as reflected in table 3.

The Commission reports in Table 4 the disposition of recaptured funds from FY 2017 payment recapture audits.

Table 4
Disposition of Funds Recaptured Through Payment Recapture Audits
(\$ in millions)

Program or Activity	Amount Recovered (<i>This amount will be identical to the "Amount Recovered" in Table 3</i>)	Type of Payment (<i>contract, grant, benefit, loan, or other</i>)	Original Purpose
USF – HC	\$2.080	Benefit	\$2.080
USF - S&L	\$1.239	Benefit	\$1.239
USF – LL	\$0.011	Benefit	\$0.011
USF - RHC	\$0.000	Benefit	\$0.000
USF - Admin	\$0.000	Contract	\$0.000
FCC	\$0.000	Contract	\$0.000
NANP	\$0.000	Contract	\$0.000
TRS	\$0.000	Benefit	\$0.000
TOTAL	\$3.330		\$3.330

The Commission reports in Table 5 the aging of its outstanding overpayments from the payment recapture audits performed in FY 2017.

Table 5
Aging of Outstanding Overpayments Identified in the Payment Recapture Audits
(\$ in millions)

Program or Activity	Type of Payment (<i>contract, grant, benefit, loan, or other</i>)	Amount Outstanding (0 – 6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectable (<i>include justification in Payment Recapture Narrative</i>)
USF-HC	Benefit	\$0.830	\$0.000	\$0.000	\$0.000
USF-S&L	Benefit	\$2.707	\$1.043	\$0.000	\$0.000
USF-LL	Benefit	\$0.011	\$0.000	\$0.000	\$0.000
USF-RHC	Benefit	\$0.113	\$0.000	\$0.000	\$0.000
USAC Admin	Contract	N/A	N/A	N/A	N/A
NANP	Contract	N/A	N/A	N/A	N/A
FCC	Contract	N/A	N/A	N/A	N/A
TRS	Benefit	N/A	N/A	N/A	N/A
TOTAL		\$3.661	\$1.043	\$0.000	\$0.000

III. Barriers

At this time, the FCC has not identified any statutory, regulatory or other barriers that may limit the agency's corrective actions in reducing improper payments for its programs and the FCC provides an update on its efforts to reduce improper payments on USF-LL immediately below.

Pursuant to the FCC's 2016 *Lifeline Modernization Order*, the FCC is working with USAC to establish the National Verifier to improve eligibility determination process. By the end of 2019, the National Verifier will determine program eligibility for all subscribers, by either electronic or manual methods. The primary means of determining eligibility for the Lifeline program is proof of the applicant's participation in other government programs that provide benefits for low income households. As such, to the extent possible, the National Verifier will interface with both state and federal eligibility databases to verify the applicant's enrollment in such programs. In order to minimize the need for manual review of eligibility, USAC and the FCC are working to sign data sharing agreements with state entities and federal agencies with relevant eligibility data sources. 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. In instances where eligibility cannot be confirmed by a data source, eligibility will have to be determined by manual review, which is more labor intensive and time consuming.

IV. Accountability

Previously, in FY 2016, USAC, in conjunction with the FCC, implemented a strategic management framework for corporate, division and program objectives. USAC established strategic initiatives 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. Building upon this earlier effort, in FY 2017, USAC began developing an enterprise-wide risk register to track risks that may prevent the successful achievement of the corporate objectives. USAC also developed division and program risk registers to track the risks that are unique to a particular division or program. In addition, each division at USAC has a unique risk register to identify program and division specific risks. The goal of USAC Enterprise Risk Management (ERM) effort is to integrate risk management into USAC's operations, resulting in a continuous process of identification, assessment, response and reporting of risk that may threaten project, program, and strategic objectives. Progress on the risk register and strategic initiatives are reported to USAC senior leadership regularly, which provides managers and decision-makers with timely feedback and measurement of progress toward achieving the strategic objectives. In addition, USAC has established steering committees for each of the USF programs as well as strategic projects. USAC employs operational meetings to review performance of program objectives. USAC, in accordance with the FCC, defined performance metrics that are routinely reported to USAC's senior leadership and relevant steering committees. Both the steering and operational committees within the organization analyze and respond to identified changes and related risks in order to maintain an effective internal control system.

V. Agency Information Systems and Other Infrastructure

The FCC in conjunction with its reporting components has worked to ensure that both the FCC and its reporting components maintain information systems that have the necessary controls in place to prevent, detect, and recover improper payments. In the case of USF S&L for example, during the funding year 2017 application filing window, USAC's information technology team continued to develop updates for the Program Integrity Assurance (PIA) review system to allow for review, approval, and commitment of funding year 2017 applications. Furthermore, in the case of USF-LL, in March of 2016, the FCC adopted a *Lifeline Modernization Order* that directed USAC in cooperation with the FCC to establish a third party national verifier. The FCC's deadline for the establishment of a third party verifier is the end of calendar year 2019. Prior to the verifier, service providers were required to verify eligibility for potential subscribers. When the verifier is launched,

the Lifeline National Eligibility Verifier (National Verifier) will determine program eligibility for subscribers in all states and territories. The National Verifier will be deployed in phases with the first six states planned for launch in December of 2017, an additional 19 states/territories in 2018, and the remaining states/territories by the end of 2019. The FCC and USAC expect the implementation of the National Verifier to assist in preventing improper payments. The National Verifier will also improve upon means for resolving duplicates in the Lifeline program through the National Lifeline Accountability Database (NLAD).

In addition, under the Commission's oversight, USAC has made the following improvements: 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. Also, as a supplement to USAC's current auditing practices, USAC has contracted with external consultants to assist with equipment inventories being performed under testing of rule compliance by USF-S&L beneficiaries. Finally, USAC has increased the number of employees and resources to perform reviews of audit findings and recovery of funds.

VI. Sampling and Estimation

USF-HC, USF-S&L & USF-LL

In FY 2017, the Commission utilized statistical sampling methodology to estimate the annual amount of improper payments in the USF-HC, USF-S&L & USF LL programs. This process, called the Payment Quality Assurance (PQA) assessment plan, tested disbursements made in calendar year 2016. In accordance with OMB guidance, a brief description of the sampling process follows below.

USF-HC

A baseline improper payment rate was established for USF-HC for the first time in FY 2017. In FY 2017, the Commission used stratified simple random sampling to select a sample of *monthly transactions* from calendar year 2016. The sample frame consisted of 2,003 Study Area Codes (SACs) that had absolute disbursement totals of at least \$900 in the prior calendar year 2016. The methodology for the sample size determination was based on nine months of data due to the fact calendar year 2016 totals were not yet available.

The goal of the PQA plan 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 2016 transactions were conducted monthly and included: 1) steps to measure the accuracy of payments; 2) evaluation of carrier eligibility; and 3) testing of high-level information obtained from program participants.

Improper payments of \$23,667 were identified in the sample of 384 monthly disbursements totaling \$81,348,215. The combined ratio estimator was used to estimate the improper payment rate and amount for the full year. The estimated improper payment amount for USF-HC in FY 2017 was \$2,498,455 with a margin of error plus or minus \$883,435. The rate is obtained by multiplying the rates by the actual total disbursements of \$4.652 billion.

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 2017 that was used in the prior year, while also decreasing the overall sample size from 493 to 478 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 mandate of plus or minus 2.5% at the 90% confidence level.

The FY 2017 procedures used for the assessments of calendar year 2016 transactions were similar to those in FY 2016. The FY 2017 procedures included the following: 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 2017 for USF-S&L was designed to extrapolate an improper payment error rate for the program as a whole. The estimated improper payment amount for USF-S&L in FY 2017 was \$103,514,070 plus or minus \$29,719,093. The payment amount is obtained by multiplying the sample improper payment rate in each stratum by the actual total disbursement amount for the stratum and then totaling the strata. The improper rate for FY 2017 was estimated at 4.34% plus or minus 1.24%. The rate is obtained by dividing the improper payment amount by the actual 2016 calendar year disbursements of \$2.4 billion.

USF-LL

A baseline improper payment rate was established for USF-LL for the first time in FY 2017. In FY 2017, the Commission used stratified simple random sampling to select a sample of *monthly transactions* from calendar year 2016. The sample frame consisted of 1,800 Study Area Codes (SACs) that had absolute disbursement totals of at least \$900 in the prior calendar year 2016. The methodology for the sample size determination was based on ten months of data due to the fact calendar year 2016 totals were not yet available.

As approved by OMB, the PQA plan used in FY 2017 for USF-LL was designed to extrapolate an improper payment error rate for the program as a whole. Consistent with Commission rules, the goal of the PQA plan was to estimate an improper payment error rate for disbursements previously identified as subject to the highest potential improper payments. Assessments of calendar year 2016 transactions included: 1) steps to measure the accuracy of disbursements, including information on the FCC Form 497; 2) evaluation of carrier eligibility; 3) testing of subscriber detail and certifications; and 4) testing for intercarrier duplicates.

Three different classes of improper payments were identified in the sample of 384 disbursements and then extrapolated to estimate the total amount for the full year.

1. Class 1 consisted of exceptions tested on all subscribers. Class 1 included the following: improper rate, unsupported lines, missing or incomplete subscriber data (name, address, date of birth, last four digits of social security number), duplicate subscriber, or incomplete documentation.
2. Class 2 consisted of exceptions that could only be tested on a sample of subscribers. Class 2 consisted of inter-carrier duplicates, missing eligibility documentation, missing enrollment certification or re-certification forms, and submitted forms that lacked a name, date or signature. Class 2 exceptions were tested on random samples of 25 to 60 subscribers for each case. The sample results were then extrapolated to obtain an estimate of improper payments for the entire invoice due to Class 2 exceptions.
3. Class 3 consisted of those cases subject to the One Per Household (OPH) criterion. There were 46 instances out of the total sample of 384 cases. 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 two to four 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.

The three classes of improper payments were combined to obtain the total improper payment made for an invoice. These improper payments were then extrapolated to estimate the total improper payment amount for the Lifeline program.

The estimated improper payment amount for USF-LL in FY 2017, using the separate ratio estimator, was \$336,385,022 with an estimated margin of error plus or minus \$43,361,812. The corresponding estimated improper payment rate was 21.93% with a margin of error plus or minus 2.83%. The rate is obtained by dividing the improper payment amounts by the actual total disbursements of \$1.534 billion.

The estimated margin of error of the improper payment rate slightly exceeded the minimum of plus or minus 2.5% at the 90% confidence level specified by OMB. This margin of error was due to the substantial increase in the improper payment rate from 2.93% in FY 2016 to the current rate. The FY 2017 reported rate resulted from more comprehensive testing that was designed to establish the baseline error rate for USF-LL. Although the sample size was increased by 33% for FY 2017 in anticipation of a potentially higher rate, the sample size will be increased further in FY 2018 to bring the margin of error below 2.5%.

TRS

The TRS Fund Administrator, Rolka Loube (RL), hired an independent auditing firm to conduct testing for TRS 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 2017 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 risk of improper payments. The Commission is using an alternative sampling methodology because the Commission is continuing work to establish a user registration database that will allow it to test all payments and establish a baseline error rate.

The scope of review by the independent auditing firm included reviewing processes performed by RL to determine whether the minutes presented by TRS providers met the criteria for reimbursement based on the FCC's rules. The error rate was calculated for minutes paid during the program year of July 1, 2016 through June 30, 2017.

The auditor conducted a risk assessment related to disbursement of TRS Funds to TRS providers. Based upon this assessment, risk factors associated with improper payment to TRS providers were identified. The auditor then used these risk factors as the basis for the attributes and tests incorporated into their test steps for the statistically valid sample of payments. The risk factors included both over and underpayment risks.

The list below identifies the risk areas or attributes associated with improper payments 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 are made to TRS providers on the FCC's "red light" list, which shows whether an entity currently has a delinquent debt pending at the FCC.
2. Payments are made to Video Relay Service (VRS), Internet Protocol (IP) Relay, or IP Captioned Telephone Service (CTS) providers who did not submit a complete Speed of Answer (SOA) report.
3. Payments are made to VRS, IP Relay, or IP CTS 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 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 providers when the CDRs are not in compliance with applicable FCC rules.
7. Payment to an ineligible TRS provider due to non-submission or improper submission of the Intent to Participate.

Upon complete analysis of the test results, no unexplained exceptions were noted, and subsequently no improper payments were identified during the testing of attributes one (1) through seven (7). As previously noted, TRS does not yet have a baseline error rate as not all of the components of the program are being tested at this time.

Other Agency-Specific Statutorily Required Reports

Fraud Reduction Report

Pursuant to the Fraud Reduction and Data Analytics Act of 2015, Public Law 114-186, the FCC is providing the following information to report on its fraud reductions efforts, including the implementation of strengthened internal controls, fraud risk assessment, and fraud risk management. Beginning in FY 2015, the Commission implemented new risk assessment tools to update its pre-existing processes for internal control evaluation. The FCC made this improvement both at the FCC and at its reporting components that assist the FCC in managing the funds the FCC oversees, including USF, TRS, and NANP.

The FCC's updated risk assessment process integrates the latest versions of the Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government* (Green Book), as well as OMB's Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Utilizing GAO's Green Book as a blueprint, the FCC implemented an entity level risk assessment tool that is completed each fiscal year by its largest Bureaus and Offices as well as its reporting components. The entity level tool includes all seventeen principles from GAO's Green Book, and as such, each organizational unit is asked to assess its fraud risk pursuant to Principle 8 of the Green Book. Furthermore, the Commission uses an additional program risk assessment tool for higher risk areas, such as the USF programs, TRS, NANP, auctions, contracts, financial operations, human resources, and information technology functions. Like the entity level tool, the program risk assessment tool also includes fraud risk as an assessment area that program managers evaluate annually for these higher risk functions. Finally, the FCC's Enforcement Bureau and Office of General Counsel also coordinate with relevant Bureaus and Offices, including the Office of Inspector General (OIG) and the Department of Justice (DOJ) as necessary, to share information and take appropriate action as fraud related issues arise.

Building upon the FCC's improvements to these processes, in FY 2017, the FCC updated the entity level risk assessment process to include enterprise risk management (ERM), pursuant to OMB Circular A-123. The integration of ERM into the risk assessment process reinforced the fraud risk analysis already present in the entity level tool. The ERM related updates required entities to evaluate the risks that they are facing, including fraud, to achieving their strategic, operational, compliance, and reporting objectives.

In summary, the FCC has put processes in place to gather and analyze information about the fraud risks it is facing. The FCC's sources of information include: fraud risk analyses in the entity level assessments and the program level assessments, investigations supporting enforcement actions, audits of beneficiaries of the USF and TRS programs, testing of payments to USF and TRS beneficiaries as well as testing of FCC payroll and contract payments. Utilizing this information, the FCC is able to assemble an enterprise level view of the fraud risks to its own operations as well as those facing the USF, TRS, and NANP funds.

From one fiscal year to the next, the Commission takes these risks into account as it conducts its operations, implements new programs, or alters existing programs. If issues are detected that require mitigation, the FCC can pivot towards the problem and take action as necessary, including withholding payments, seeking recovery of funds, amending existing processes, updating policies and procedures, and referring cases to the OIG as necessary for potential prosecution in conjunction with DOJ.

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 were 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 December 30, 2016, the Enforcement Bureau of the Federal Communications Commission adopted and released an order on delegated authority, DA 16-1453, 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 inflation adjustment will be the percentage by which the Consumer Price Index (CPI) for the month of October 2016 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 82 No. 14 (24 January 2017): 82 FR 8170. https://www.gpo.gov/fdsys/pkg/FR-2017-01-24/pdf/2017-00365.pdf
47 U.S.C. 202 (c)	Discrimination	1989	2016	\$11,548 \$577/day	EB	Same as above
47 U.S.C. 203 (e)	Schedules of Charges	1989	2016	\$11,548 \$577/day	EB	Same as above
47 U.S.C. 205 (b)	Commission Charges	1989	2016	\$23,095	EB	Same as above
47 U.S.C. 214 (d)	Extension of lines	1989	2016	\$2,309	EB	Same as above
47 U.S.C. 219 (b)	Annual Report	1989	2016	\$2,309	EB	Same as above
47 U.S.C. 220 (d)	Failure to maintain records	1989	2016	\$11,548	EB	Same as above
47 U.S.C. 223 (b)	Obscene/harassing telephone calls	1983	2016	\$119,668	EB	Same as above

47 U.S.C. 227 (e)	Telephone equipment restrictions	2010	2016	\$11,052/violation \$33,156/day for each day of continuing violation up to \$1,105,241 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	\$9,623	EB	Same as above
47 U.S.C. 364 (b)	Radio on board ships - Forfeitures	1989	2016	\$1,925	EB	Same as above
47 U.S.C. 386 (a)	Radio on board ships - Forfeitures	1989	2016	\$9,623	EB	Same as above
47 U.S.C. 386 (b)	Radio on board ships - Forfeitures	1989	2016	\$1,925	EB	Same as above
47 U.S.C. 503 (b)(2)(A)	Penalty provisions	1989	2016	\$48,114/violation or each day of a continuing violation up to \$481,147 for any single act or failure to act	EB	Same as above
47 U.S.C. 503 (b)(2)(B)	Penalty provisions	1989	2016	\$192,459/violation or each day of a continuing violation up to \$1,924,589 for any single act or failure to act	EB	Same as above
47 U.S.C. 503 (b)(2)(C)	Penalty provisions	2006	2016	\$389,305/violation or each day of a continuing violation up to \$3,593,585 for any single act or failure to act	EB	Same as above
47 U.S.C. 503(b)(2)(D)	Penalty provisions	1989	2016	\$19,246/violation or each day of a continuing violation up to \$144,344 for any single act or failure to act	EB	Same as above
47 U.S.C. 503(b)(2)(F)	Penalty provisions	2010	2016	\$110,524/violation or each day of a continuing violation up to \$1,105,241 for any single act or failure to act	EB	Same as above
47 U.S.C. 507 (a)	Payment disclosure	1954	2016	\$1,906	EB	Same as above
47 U.S.C. 507 (b)	Payment disclosure	1954	2016	\$279	EB	Same as above
47 U.S.C. 554(f)	Equal employment opportunity	1992	2016	\$853	EB	Same as above

Office of Inspector General's Management and Performance Challenges



UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: October 25, 2017

TO: Chairman Ajit Pai
Commissioner Clyburn
Commissioner O'Rielly
Commissioner Carr
Commissioner Rosenworcel

FROM: Inspector General *Dwight H. Bennett*
By: Katherine H. Kelly

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 2017 and beyond. During its audits and investigations, OIG has recommended actions that best address these challenges. Additional information on OIG audits and investigations can be found in our most recent Semiannual Reports to Congress.

Information Security

The FCC continues to undertake significant information technology (IT) initiatives that support FCC *Strategic Objective 4.1: Effectively manage the FCC's information technology, financial, and human resources to best achieve the FCC's mission.* The FCC seeks to leverage newer technologies such as cloud computing, to enhance services to its stakeholders. While the FCC focuses on achieving its strategic objectives, the challenge lies in striking an acceptable balance between the implementation of new technologies and a sustainable information security program that complies with federal mandates.

The Commission has made progress in its information security program in the areas of risk management and information security continuous monitoring. However, significant work is needed before FCC achieves compliance with the Federal Information Security Modernization Act (FISMA). The FY 2017 FISMA evaluation report identifies three significant deficiencies in IT security - risk management, information security continuous monitoring, and identity and access management. All of the significant deficiencies represent repeat or updated findings and recommendations from prior year evaluations. Some of the repeat or updated recommendations date back to 2008. Balancing FCC's technology initiatives with continued adherence to a high level of information security standards remains a significant management challenge.

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: 1) providing financial support to eligible telecommunications carriers that serve high-cost areas; 2) assisting schools and libraries with obtaining telecommunications and internet services; 3) assisting low-income consumers with obtaining affordable telephone service; and 4) assisting rural health care providers gain access to telecommunications and internet services. Under the direction of the Commission, the Fund is administered by the Universal Service Administrative Company (USAC). The OIG has ongoing audits to identify program risks, ensure compliance with program rules, and provide recommendations to reduce waste and abuse of program resources. OIG has also devoted significant assets to investigating allegations of fraudulent activity involving each and every Fund program.

Within *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, as well as effective USAC administration. Establishing direction and policy, managing transition, and ensuring that all USF program rules and regulations contribute to effective and efficient programs are significant management challenges.

High Cost Program

The USF High Cost program provides \$4.5 million annually to ensure robust, affordable voice and broadband service, both fixed and mobile, are available to Americans throughout the nation. Under the USF Intercarrier Compensation (ICC) Transformation Order, issued in 2011, and Rate-of-Return Carriers Reform Order, issued in 2016, 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.

FCC's challenge is to ensure the USF Transformation and Reform Orders are implemented timely and accomplish their intended purposes. One of the goals of these orders is to provide high-speed broadband to underserved areas. To address this challenge, USAC is in the process of developing a system, the High Cost Universal Broadband Portal (HUBB), which will help USAC determine if carriers met their obligations to provide high-speed internet to specific underserved locations. HUBB incorporates latitude and longitude coordinates for every location where service is available, and USAC will eventually display this information on a public-facing map to show the impact of High Cost program resources on broadband expansion throughout rural America. Most Carriers were obligated to provide high-speed internet to underserved areas by the end of 2016 or 2017. Because HUBB is not scheduled to be fully operational until 2018, there is a risk that carriers did not meet their obligation to provide high-speed broadband to specific underserved locations by the required milestones.

Schools and Libraries Program

In 2016, the Schools and Libraries program, often called E-rate, provided \$2.39 billion in support to over 38,000 eligible entities. In 2014, the Commission released two E-rate Modernization Orders. The first Order, effective in funding year 2015, adopted three program goals: 1) ensure schools and libraries have access to affordable high-speed broadband internet services; 2) maximize the cost-effectiveness of spending for E-rate supported purchases; and 3) ensure the E-rate application process is fast, simple and efficient.

The second E-rate Modernization Order aimed 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 established a performance management system to evaluate the effectiveness of the modernization orders and identify program improvements.

To meet the Commission's program goal of ensuring a fast, simple and efficient E-rate application process, USAC was to develop and deploy the E-Rate Productivity Center (EPC). The EPC was originally scheduled to be fully operational by funding year 2016. However, EPC was not fully functional by the milestone date, resulting in delays in processing applications for program funding. Additionally, the cost to deploy EPC has significantly exceeded its original estimate of \$19 million. In a May 2017 letter to USAC, the Chairman noted over \$30 million has already been spent and the estimated final total cost may be more than double that amount. The Chairman directed USAC to resolve EPC program deficiencies, improve USAC transparency and accountability, and identify alternative options to assist applicants in the event of EPC system failures.

Additionally, recent OIG and USAC audits and investigations identified several risks to the Schools and Libraries program that continue to be management challenges:

- Missing or inadequate documentation to demonstrate compliance with FCC rules;
- Invoicing of the Fund for ineligible products or services;
- Inadequate documentation to substantiate compliance with competitive bidding rules;
- Untimely beneficiary payments to service providers;
- Insufficient Internet Safety Policies; and
- Products and/or services being received by ineligible entities.

Lifeline Program

The Lifeline program continues to require significant resources to combat waste, fraud and abuse. The USF Lifeline program was established in 1985 to ensure that low-income consumers have access to affordable wireline phone service. In 2008, the program was expanded to provide support for wireless phone service, and in 2016 the program was expanded to provide broadband support. In 2016, the Commission disbursed about \$1.5 billion in Lifeline support to over 13 million low-income households.

The Commission comprehensively reformed the Lifeline program in 2012 and 2016 to require stricter oversight, including promulgating changes to the ways service providers must confirm

consumer eligibility. However, some 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. The following ongoing risks continue to be management challenges for the Lifeline program:

- Subscribers receiving duplicate service from two or more carriers;
- Carriers and their agents enrolling minors and other ineligible subscribers;
- Carriers having no evidence to support enrollment and de-enrollment of subscribers
- Carriers or their agents enrolling deceased subscribers; and
- A lack of accountability over sales agents and payment structures that incentivize fraud.

Government Accountability Office's (GAO) May 2017 Lifeline audit report¹ found that the complex internal control environment for the Lifeline program renders it susceptible to risk of fraud, waste, and abuse, as companies may have financial incentives to enroll as many customers as possible. Additionally, based on its matching of subscriber to benefit data, GAO was unable to confirm whether roughly 1.2 million individuals of the 3.5 million it reviewed (36 percent) were eligible for Lifeline program benefits. In response to the GAO audit report, the Chairman issued a letter to USAC directing USAC management to implement actions to tighten Lifeline program safeguards and identify and de-enroll ineligible subscribers. USAC has several initiatives in process that should, over time, improve program controls. However, many of the initiatives will not be fully implemented until 2019. Therefore, we believe that ensuring Lifeline program reforms have their intended effect, and continuing to resolve outstanding and open OIG audit and investigations team recommendations, remain significant management and performance challenges.

TV Broadcaster Relocation Fund

To reimburse broadcasters for the reasonable costs associated with the post incentive auction relocation/repacking, the Middle Class Tax Relief and Job Creation Act of 2012 (Spectrum Act) set aside \$1.75 billion for the TV Broadcasters Relocation Fund. The Spectrum Act requires that all reimbursements be made within a 39- month period. The Commission's efforts related to this new Fund are encompassed under *Strategic Goal 1: Promoting Economic Growth and National Leadership*, by the expansion of competitive telecommunications networks. The FCC must establish effective internal controls to minimize risk and ensure the best use of resources to successfully implement its objectives while safeguarding TV Broadcaster Relocation Fund assets.

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

¹ GAO-17-538, Additional Action Needed to Address Significant Risks in FCC's Lifeline Program, May 2017.

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



Office of the Managing Director

MEMORANDUM

DATE: November 14, 2017

TO: David L. Hunt, Inspector General

FROM: Mark Stephens, Managing Director
Kathleen Heuer, Chief Financial Officer
Christine Calvosa, Chief Information Officer

SUBJECT: Management's Response to Inspector General's Management and Performance Challenges

Management has reviewed the Office of the Inspector General's (OIG) Memorandum, dated October 25, 2017, assessing the most serious management and performance challenges facing the Federal Communications Commission (Commission or FCC) for fiscal year (FY) 2017 and beyond. Management is pleased to report on its continued efforts, summarized below, to resolve the management challenges identified by OIG.

I. INFORMATION SECURITY

OIG states that the FY 2017 Federal Information Security Modernization Act (FISMA) evaluation report identifies three significant deficiencies in Information Technology (IT) security: risk management, information security continuous monitoring, and identity and access management. OIG notes that all the significant deficiencies represent repeat or updated findings and recommendations from prior year evaluations. OIG states that "balancing FCC's technology initiatives with continued adherence to a high level of information security standards remains a significant management challenge."

The FCC's IT team acknowledges the challenge of balancing resources associated with delivering modern, secure technology solutions to support the mission of the agency. The FCC IT infrastructure is currently comprised of many legacy systems. The FCC's IT team has prioritized the modernization of these systems; taking this approach should reduce operational costs and improve the FCC's cybersecurity. Along with implementing modern technologies, FCC's IT team has also implemented enhanced processes and procedures, which have resulted in the reduction of audit recommendations by 66 percent between FY 2013 and FY 2017. In FY 2017, the FCC's IT team: (1) closed all of the Government Accountability Office (GAO) audit recommendations related to the FCC's Enhanced Secure Network (ESN); (2) closed all of the OIG Social Media audit recommendations; (3) reduced OIG Email Assessment recommendations by 96 percent; (4) reduced OIG Website Assessment recommendations by 54 percent; and (5) reduced FISMA audit recommendations by 38 percent.

The FCC's IT team is committed to addressing the remaining significant deficiencies identified in the FY 2017 FISMA evaluation in the areas of risk management, information security continuous monitoring, and identity and access management. The FCC's IT team's ongoing efforts include:

- Support of the FCC Risk Manager in implementing a fully integrated Enterprise Risk Management (ERM) program that will ensure that information security risks are identified at the Bureau and Office level. Integrating ERM will help the FCC obtain an enterprise-wide view of its risks to identify potential commonalities in areas of concern across the FCC. The FCC's IT team will also focus attention on completing thorough system authorizations and collaborating with IT system owners to address and remediate critical risks through corrective actions in a timely manner.
- Reduction in system vulnerabilities through a mature patch-management process while continuing efforts to modernize the FCC's legacy applications. The FCC's IT team will also continue to provide management visibility into the cybersecurity health of the application portfolio by providing enhanced and meaningful metrics on a regular basis.
- Refinement of the current process for provisioning and managing user access to the FCC's information systems. The FCC's IT team will prioritize the implementation of an automated identity and access management solution to streamline current manual processes and minimize human error.

II. UNIVERSAL SERVICE FUND

OIG recognizes the FCC's need to ensure that Universal Service Fund (USF) programs keep up with changing technologies and are well managed, efficient, and fiscally responsible. As such, OIG believes comprehensive reforms in all the USF programs, including implementation of the Connect America Fund, will require a significant investment of Commission resources, as well as effective administration of the Universal Service Administrative Company (USAC). OIG states that establishing direction and policy, managing transition, and ensuring that all USF program rules and regulations contribute to effective and efficient programs are all significant management challenges. Management concurs with the OIG's assessment and is pleased to report on its continued efforts, summarized below, to combat and resolve these management challenges. Recent efforts in FY 2017 to effectively oversee USF include:

- Completion by USAC of 195 audits of beneficiaries in FY 2017. From these audits, approximately \$7.36 million has been identified for recovery. USAC has initiated recovery efforts on most of these audits and has completed recovery in several cases.
- Examination by USAC, per the Commission's direction, of the results of the audits and assessment programs conducted by USAC for FY 2017 and implementation of corrective action plans in response to all findings, consistent with guidance from the Office of Management and Budget (OMB) in Circulars A-123 and A-50.
- In 2017, USAC also expanded its Compliance and Risk team, which designs and implements ERM processes for USAC in accordance with OMB Circular A-123. The Compliance and Risk team meets quarterly with USAC's newly formed Risk Management Council (comprised of USAC's senior leadership) to discuss risks, risk response strategies, management solutions, and internal controls. The Director of Compliance and Risk also ensures 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 USF programs.
- USAC has developed strong data analytics, program integrity projects and a risk-based audit program to detect fraud, waste, and abuse in the USF programs. USAC's Director of Compliance and Risk serves as the single point of contact, as required by the Memorandum of Understanding between USAC and the FCC, for all law enforcement investigations by the FCC's OIG or Enforcement Bureau (EB). This approach has streamlined program integrity efforts and has resulted in multiple referrals to the FCC's OIG and EB of possible rule violations. USAC is committed to working closely with the FCC's OIG and EB to collaborate on law enforcement activities and items for investigation.

- USAC maintains procedures to perform annual risk assessments of its internal controls surrounding the processes for the USF programs. USAC tests the effectiveness of these processes annually through its Payment Quality Assurance (PQA) program, where USAC samples payments made to beneficiaries and service providers to ensure that these payments were made in compliance with USF program rules and requirements. Furthermore, USAC maintains an audit program, known as the Beneficiary and Contributor Audit Program (BCAP). The BCAP program uses a risk-based methodology to select a sample of beneficiaries and service providers for audits each year. Through this combination of risk assessment, testing, and audits, USAC can promote compliance with USF program rules and requirements and identify areas that require improvement, thereby preventing similar or recurring instances of non-compliance as well as fraud, waste, and abuse. At the end of each round of PQA testing and BCAP audits, USAC performs an analysis of the results to determine the root causes of issues that surfaced during the audits. In its annual “Circle of Life” Report, USAC provides detailed corrective action plans that the USF programs are implementing to address the root causes of the issues identified during each cycle of assessments and audits.

High-Cost. In its Memorandum, OIG identifies the challenge for the FCC “to ensure the USF Transformation and Reform Orders are implemented timely and accomplish their intended purposes.” In particular, OIG emphasizes its discussion on the goal of these orders to provide high-speed broadband to underserved areas. This goal will be addressed by the High Cost Universal Broadband Portal (HUBB), which will help USAC determine if carriers have met their obligations to provide high-speed internet to specific underserved locations. OIG, however, states that because HUBB is not scheduled to be fully operational until 2018, there is a risk that carriers did not meet their obligations to provide high-speed broadband to specific underserved locations by the required milestones.

In the 2016 *Rate-of-Reform Return Order*, the Commission directed USAC to develop an online system (later named the HUBB) to accept high-cost recipients’ broadband deployment information.¹⁸ The HUBB portal will track carriers’ progress towards their broadband deployment milestones and provide a means for USAC to collect broadband information for later public distribution.¹⁹ On December 8, 2016, the Wireline Competition Bureau (WCB) provided carriers with detailed guidance regarding their HUBB portal filing obligations.²⁰ USAC provided additional HUBB filing guidance through webinars and responses to frequently asked questions posted on the USAC website.²¹ The HUBB is currently operational and accepting filings by the majority of recipients of high-cost support.²² However, the Commission did not receive Paperwork Reduction Act approval for the information collection in section 54.316 of the Commission’s rules, requiring carriers to file information with USAC through the HUBB portal, until March 22, 2017.²³

¹⁸ *Connect America Fund et al.*, Report and Order *et al.*, 31 FCC Rcd at 3166, para. 214 (2016) (*Rate-of-Return Reform Order*) (directing the Bureau to work with USAC to develop an online portal).

¹⁹ For example, the collected data will be displayed on a public-facing map. *See id.*, at 3168, para. 221.

²⁰ *See Wireline Competition Bureau Provides Guidance To Carriers Receiving Connect America Fund Support Regarding Their Broadband Location Reporting Obligations*, Public Notice, 31 FCC Rcd 12900 (WCB 2016) (*HUBB Public Notice*).

²¹ *See, e.g.*, Universal Service Administrative Company, Filing Geolocated Broadband Deployment data, <https://usac.org/hc/tools/hubb.aspx>.

²² The Wireline Competition Bureau is currently seeking Paperwork Reduction Act approval for certain HUBB filers and additional HUBB functionalities that neither impact the 2017 filing deadline nor the upcoming March 1, 2018 filing deadline. *See* 82 FR 44785 (Sept. 26, 2017).

²³ 82 FR 14639 (March 22, 2017); *see also Rate-of-Return Reform Order*, 31 FCC Rcd at 3167, para. 219 (“Specifically, upon the relevant Paperwork Reduction Act approvals, price cap ETCs will be required to submit the requisite information to USAC no later than March 1 of each year...”); *id.*, para. 217 (same for rate-of-return carriers).

On February 24, 2017, the WCB granted, with slight modifications, petitions filed by The Rural Broadband Association (NTCA) and WTA–Advocates for Rural Broadband (WTA), seeking a short term waiver of the March 1, 2017 deadline for certain Connect America Fund (CAF) recipients to report their first set of geo-located broadband information and related certifications through the HUBB.²⁴ When it granted a waiver of the first HUBB reporting deadline, the WCB found that doing so was in the public interest and necessary to: (1) align HUBB portal reporting deadlines with approval of the relevant information collection requirements; and (2) ensure that high-cost recipients, particularly those preparing to file this information for the first time, have sufficient time to collect and submit their broadband information in the required format.²⁵ Additionally, the WCB found that, on balance, any public interest harm from this waiver was limited.²⁶

No recipient of high-cost support with a HUBB reporting obligation during the affected time period had a measurable interim deployment milestone during that period.²⁷ The first measurable interim deployment deadline for carriers with HUBB reporting obligations is for recipients of CAF Phase II model-based support, which is not until the end of 2017.²⁸ States will still be able to determine whether carriers are on-track to meet their deployment milestones and that universal service funding in their respective jurisdictions is being and will be used as intended.²⁹ Therefore the risk is minimal that the Commission, USAC and/or states and Tribal governments could not monitor whether carriers were meeting their obligations.

In December 2016, the Commission released its first enforcement action for apparent violations of the High Cost Program rules and section 220 of the Communications Act of 1934 (the Act) when it proposed a forfeiture penalty of approximately \$49.6 million against a recipient of high-cost support. The Notice of Apparent Liability was released simultaneously with two related Commission Orders drafted by WCB. These three items were the result of a coordinated investigation between EB, led by the USF Strike Force, WCB, and USAC which found that the carrier apparently failed to maintain its accounting, records, and memoranda in the manner prescribed by the Commission pursuant to section 220(d) of the Act. These violations stemmed from the submission and certification of the company’s annual cost studies, which were relied upon by USAC and the National Exchange Carrier Association (NECA) to calculate the carrier’s high-cost support payments.

Schools and Libraries Program. In its Memorandum, OIG underscores the Commission’s program goal of ensuring a fast, simple and efficient E-rate application process. For the FCC to accomplish this goal, OIG emphasizes the importance of USAC’s development and deployment of the E-Rate Productivity Center (EPC). EPC was not fully functional by the milestone date - Funding Year 2016, resulting in delays in processing applications for program funding. OIG also notes the cost to deploy EPC has significantly exceeded its original estimate of \$19 million. OIG reports of the Chairman’s direction to USAC to resolve EPC program

²⁴ *Connect America Fund*, WC Docket No. 10-90, Order, 32 FCC Rcd 1445 (WCB 2017) (*HUBB Deadline Waiver Order*); see also NTCA, Petition for Temporary Limited Waiver/Extension of Time, WC Docket No. 10-90 (filed Feb. 2, 2017) (NTCA Petition); WTA, Petition for Temporary Waiver or Extension of March 1, 2017 High Cost Universal Service Broadband Portal Filings, WC Docket No. 10-90 (filed Feb. 17, 2017) (WTA Petition).

²⁵ *HUBB Deadline Waiver Order*, 32 FCC Rcd at 1445, para. 2.

²⁶ *Id.* at 1448, para. 11.

²⁷ During the affected time period, some Rural Broadband Experiment (RBE) recipients filed location data demonstrating whether they had met their initial interim deployment milestones on FCC Form 481 and with the Commission. Beginning in March 2018, those filings will be made in the HUBB. See *HUBB Public Notice*, 31 FCC Rcd at 12909 (moving RBE filings to the HUBB in March 2018).

²⁸ See 47 CFR §§ 54.310(c), 316(b)(1). Absent the Commission’s adoption of the HUBB, recipients of Phase II model-based support, which were already subject to a requirement to file broadband location information, would have reported the same deployment data by the same date (July 3) through their FCC Form 481. *Connect America Fund et al.*, Report and Order, 29 FCC Rcd 15644, 15686-89, paras. 124-28 (2014).

²⁹ See 47 CFR § 54.314(d).

deficiencies, improve USAC transparency and accountability, and identify alternative options to assist applicants in the event of EPC system failures.

At the FCC's direction, USAC has worked to address EPC program deficiencies, improve USAC transparency and accountability, and identify alternative options to assist applicants in the event of EPC system failures. These efforts include: (1) implementing redevelopment work to ensure that all EPC processes function efficiently for Funding Year 2017 and beyond; (2) deploying resolutions for system issues affecting the completion of Funding Year 2016 and Funding Year 2017 applications; (3) resolving system issues identified in post-commitment review processes; (4) completing development of post-commitment features; and (5) ensuring Funding Year 2018 FCC forms and processes are updated and capable for use with multiple funding years. Many of these efforts are described in further detail below.

USAC has also performed organizational assessments to evaluate its Schools and Libraries Division's staffing resources and needs, and has filled several key positions to improve the administration of the program in areas where additional resources and skills were required, such as the efficient review of fiber applications. USAC is evaluating its communication with the Commission concerning program administration and plans to propose improvements. USAC has also developed a new E-rate open data platform to improve program transparency and participant access to program data.

Additionally, OIG reports of both OIG and USAC audits and investigations identifying several risks to the Schools and Libraries Program that continue to be management challenges:

- Missing or inadequate documentation to demonstrate compliance with FCC rules;
- Invoicing of the Fund for ineligible products or services;
- Inadequate documentation to substantiate compliance with competitive bidding rules;
- Untimely beneficiary payments to service providers;
- Insufficient Internet safety policies; and
- Products and/or services being received by ineligible entities.

USAC and the FCC are addressing these issues and other challenges. These actions are detailed below.

Missing or inadequate documentation to demonstrate compliance with FCC rules

- Consistent with the *2014 First E-rate Order*, the E-rate program has transitioned to all-electronic filing. The Commission oversees USAC as it develops technology to support a fully automated system. USAC continues to periodically deploy new and improved functionality in the EPC system, including functionality that allows applicants and service providers to store program forms in the system.
- USAC reviews program participants' applications to ensure program compliance prior to the commitment of funds. The review team asks targeted questions and requests supporting documents to confirm compliance with FCC rules and program procedures. The review team documents their decisions, along with the supporting documentation, in EPC to provide a comprehensive audit trail. These internal controls ensure that funding is only provided after the application has been deemed fully compliant with Commission rules and program procedures.
- Although EPC allows applicants to store certain information on the system, applicants and service providers are ultimately responsible for retaining their own records demonstrating compliance with the statutory and regulatory requirements of the E-rate program. Schools, libraries, consortia, and service providers are required to produce such records at the request of any representative (including any auditor) appointed by a state education department, USAC, the FCC, or any local, state, or federal agency with jurisdiction over the entity.

Invoicing of the Fund for ineligible products or services

- The Commission continues to oversee USAC's processes for application forms and the E-rate application review system. The forms to request bids and seek support for services (FCC Forms 470 and 471) have been reviewed and updated 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 signals potential bidders (service providers) that the applicant is seeking only eligible services and products.
- In addition, the Commission continues to review the list of eligible services (Eligible Services List or ESL) 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 to instruct schools, libraries and service providers on the E-rate rules, including rules related to eligible services. USAC conducts webinars and 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 permits applicants to choose one of two invoicing options: (1) FCC Form 472 (Billed Entity Applicant Reimbursement or BEAR), which is filed by the applicant to seek reimbursement from USAC for the discounted portion of charges after paying the service provider in full for services received; or (2) FCC Form 474 (Service Provider Invoice or SPI), which is filed by the service provider to seek reimbursement from USAC for the discounted portion of charges after billing the applicant for the non-discount share.
- On an annual basis, service providers are required to file FCC Form 473, which requires the following certification: (1) prices in any offer made pursuant to program rules have been arrived at independently, without, for the purpose of restricting competition, any consultation, communication, or agreement with any other offeror or competitor relating to those prices, the intention to submit an offer, or the methods or factors used to calculate the prices offered; (2) prices in any offer made pursuant to program rules will not be knowingly disclosed, directly or indirectly, to any other offeror or competitor before bid opening (in the case of a sealed bid solicitation) or contract award (in the case of a negotiated solicitation) unless otherwise required by law; (3) no attempt will be made to induce any other concern to submit or not to submit an offer for the purpose of restricting competition; (4) invoices submitted to applicants for reimbursement pursuant to the BEAR process are accurate and represent payments from the applicant to the service provider for equipment and/or services provided pursuant to program rules; and (5) bills or invoices issued to applicants are for equipment and/or services eligible for E-rate support and exclude any charges previously invoiced to USAC by the service provider.
- USAC may subject certain invoices to additional review when the services invoiced do not match the services that were approved for funding or the services or products appear to be ineligible for funding. Using approved procedures, USAC contacts the parties to determine if a service substitution request should be submitted to allow the invoice to be processed for payment.

Inadequate documentation to substantiate compliance with competitive bidding rules

- The Commission continues to consult and oversee USAC's improvements to the competitive bidding form, FCC Form 470. Applicants may be, and in some cases, are required to upload their Requests for Proposals directly into EPC. 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 the Commission's competitive bidding rules.

- Applicants and service providers are responsible for retaining their own records demonstrating compliance with the statutory and regulatory requirements of the E-rate program, including the Commission's competitive bidding rules. Schools, libraries, consortia, and service providers are required to produce such records at the request of any representative (including any auditor) appointed by a state education department, USAC, the FCC, or any local, state, or federal agency with jurisdiction over the entity.
- To ensure compliance with competitive bidding rules, USAC: (1) explains, reviews, and discusses the competitive bidding rules with E-rate eligible entities and service providers during its annual training events; (2) provides examples of acceptable documents to verify compliance on the USAC website; (3) issues News Briefs to provide timely information to applicants and service providers regarding the competitive bidding process; and (4) conducts webinars with information on how to comply with competitive bidding requirements for E-rate beneficiaries. Moreover, in partnership with USAC's Internal Audit Division, USAC's Schools and Libraries Division has identified documentation that must be retained for audits. USAC will post this information on its website.

Untimely beneficiary payments to service providers

- Failing to pay the non-discount share more than 90 days after the delivery of service establishes a presumption that the applicant violated the requirement that it pay its non-discount share. Through its website and weekly News Briefs, USAC has informed applicants that payments to service providers should be rendered within 90 days of bill date. As part of the transition to an all-electronic filing system for the E-rate program, service providers and applicants are required to fill out their invoicing forms online. Prior to Funding Year 2016, service providers were permitted to file E-rate invoices on paper. However, the current invoicing process remains in USAC's legacy system, while other E-rate program activities for Funding Year 2016 and later are managed through EPC. USAC is working toward implementing an EPC Invoicing Portal for the E-rate program, and assessing the feasibility of developing an invoicing system for all USF programs.

Insufficient Internet Safety Policies

- Pursuant to the Children's Internet Protection Act (CIPA), the Commission's rules require schools and libraries that receive discounts for Internet access and internal connections under the E-rate program to certify that an Internet safety policy is being enforced. As detailed in Section 54.520 of the Commission's rules, the Internet safety policy must address specific issues, such as the safety and security of minors when using electronic mail, chat rooms, and other forms of direct electronic communications, and include certain technology protection measures, such as protecting against Internet access by both adults and minors to visual depictions that are obscene, child pornography, or, with respect to use of the computers by minors, harmful to minors. Schools' Internet safety policies must also provide education to minors about appropriate online behavior, including interacting with other individuals on social networking web sites and cyberbullying awareness and response.
- To ensure compliance with CIPA, USAC: (1) explains, reviews, and discusses the program CIPA rules with E-rate eligible entities during applicant trainings; (2) provides an overview of the CIPA requirements on the USAC website, as well as examples of documents that demonstrate a school or library is complying with CIPA; and (3) conducts webinars with information on how to comply with CIPA requirements. USAC's Tribal liaison provides similar resources and training to the Tribal community, and USAC's weekly News Briefs educate applicants on program rules and procedures.

Products and/or services being received by ineligible entities

- Pursuant to the Commission's rules, E-rate funding may be used to purchase only eligible services that will be used by eligible schools and libraries for a primarily educational purpose. Applicants are required

to certify that these requirements are met when they file their FCC Form 471 applications for funding. During its review of the applications, USAC reviews information submitted by the applicants to confirm that the funding requested will be applied only to services used by eligible recipients. If necessary, USAC will issue additional information to applicants to confirm that funding will not be used to purchase services that will be used by ineligible entities for an ineligible purpose. The Commission continues to oversee USAC as it works to improve the sufficiency and efficiency of this review process. All E-rate program participants remain subject to audits and investigations. USAC's Schools and Libraries Division coordinates with USAC's Internal Audit Division to identify ineligible entities through audits and investigations.

- 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 entity eligibility. 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, eligible entities, competitive bidding and other core E-rate requirements. USAC conducts regular calls with E-rate stakeholders to educate participants on their compliance obligations, including the obligation to not provide products and/or services to ineligible entities. Additional outreach efforts include USAC's weekly News Briefs, which educate applicants and service providers on program rules and procedures and Special News Briefs, which address major changes. USAC's Tribal liaison provides similar resources and training to the Tribal community.

Lifeline. In its Memorandum, OIG states the Lifeline program continues to require significant resources to combat fraud, waste, and abuse. Moreover, in recent years, OIG 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. OIG identifies the following ongoing risks as continuing to be management challenges for the Lifeline program:

- Subscribers receiving duplicate service from two or more carriers;
- Carriers and their agents enrolling minors and other ineligible subscribers;
- Carriers having no evidence to support enrollment and de-enrollment of subscribers;
- Carriers or their agents enrolling deceased subscribers; and
- A lack of accountability over sales agents and payment structures that incentivize fraud.

Finally, OIG summarizes the Government Accountability Office's (GAO) May 2017 Lifeline audit report finding that the complex internal control environment for the Lifeline program renders it susceptible to risk of fraud, waste, and abuse, as companies may have financial incentives to enroll as many customers as possible. Additionally, based on its matching of subscriber to benefit data, GAO was unable to confirm whether roughly 1.2 million individuals of the 3.5 million reviewed (36 percent) by GAO were eligible for Lifeline program benefits. GAO did note the Chairman's letter to USAC directing USAC management to implement actions to tighten Lifeline program safeguards and identify and de-enroll ineligible subscribers. OIG identifies several initiatives by the FCC and USAC that should, over time, improve program controls. However, OIG notes many of the initiatives will not be fully implemented until 2019.

OIG concludes that significant challenges remain for the FCC and USAC to ensure that Lifeline program reforms have their intended effect and that outstanding audit recommendations continue to be resolved. The Commission and USAC are taking action to address these issues and other challenges as they implement Lifeline program reforms. These actions are summarized below.

Subscribers receiving duplicate service from two or more carriers

- In response to the 2017 GAO report, in July 2017 Chairman Pai directed USAC to identify and review every address associated with 500 or more subscribers in the National Lifeline Accountability Database (NLAD) and require eligible telecommunications carriers (ETCs) to de-enroll any subscriber who cannot verify that they are an independent economic household and reside at a location that could reasonably accommodate them. The Chairman also directed USAC to review a statistically valid sample of addresses in the NLAD associated with 25 or more subscribers on a quarterly basis, de-enroll any subscribers improperly receiving benefits, and pursue a process to automatically detect oversubscribed addresses. USAC will pursue monetary recovery where appropriate and refer ETCs with substantial oversubscribed addresses to EB and OIG.
- In the July 2017 letter, Chairman Pai also directed USAC to require ETCs to verify the identities of subscribers identified by the GAO as exact duplicates and de-enroll any duplicative accounts, once USAC has received the list of potentially ineligible subscribers from the GAO. The GAO is working on preparing that list for delivery to the FCC's EB and OIG. USAC will pursue monetary recovery where appropriate and refer ETCs with substantial oversubscribed addresses to EB and OIG.
- In USAC's August 2017 response to the July 2017 letter from Chairman Pai, USAC explained that it is in the process of evaluating opportunities to add additional warnings in the NLAD system when the number of subscribers associated with a particular address exceeds a certain threshold. In addition, USAC is undertaking steps to review documentation for addresses where there are more than 25 Lifeline subscribers at a single address on a quarterly basis and has begun this process as of October 2017. USAC will initiate recovery actions, where appropriate, in coordination with the Office of Managing Director (OMD) and WCB. In addition, USAC has indicated that it plans to refer any instances of substantial findings related to enrollment or recertification of individuals at oversubscribed addresses to the OIG and EB.
- The Commission is currently considering a Notice of Proposed Rulemaking (NPRM) that seeks comment on restricting the use of the independent economic household worksheet to instances where the subscriber resides at an address already listed in the NLAD. If adopted, the draft NPRM would also seek comment on other ways to prevent fraud and abuse in enrollments with duplicate addresses, including directing USAC to compile a list of addresses known to contain multiple households.
- Since the implementation of NLAD, USAC has developed several enhancements to its duplicate checking logic to strengthen the detection of duplicate subscribers. In addition, USAC has made further improvements based on recommendations from other parties, including the FCC. USAC continually monitors and scrubs the data in NLAD to improve the logic that prevents households from receiving more than one Lifeline benefit. Currently, NLAD performs a duplicate check on all enrollments and benefit transfers. In 2017, USAC conducted a detailed data analysis of the current NLAD data to detect any duplicate subscribers and none were identified. If USAC identifies any duplicate subscribers based on data provided by the GAO, USAC will instruct the ETCs to de-enroll those subscribers in compliance with the FCC's rules and will work with the FCC to recover any improper payments related to those subscribers.
- As part of duplicate prevention, NLAD validates identities and addresses, and is the system of record associating enrollments of consumers to the carriers. In 2017, USAC made enhancements to NLAD which prevent: (1) enrollments using the Supplemental Security Income (SSI) program in territories where SSI is unavailable; (2) the use of Post Office Boxes as the residential address; and (3) a subscriber from being enrolled as tribal in areas with no tribal lands.
- Because not all consumers can be automatically validated through the third-party identification source integrated with NLAD, the FCC's rules allow manual review of documentation to substantiate address or identification. Currently, these reviews are performed by carriers, although they will transition to the National Verifier as described below. In the meantime, USAC began a sampling process to review the work performed by carriers to manually validate consumer information for entry into NLAD. If USAC does not find the review to have been accurate, steps will be taken to de-enroll the consumer and evaluate any required recovery of funds.
- As part of the Lifeline Safeguards Plan, USAC began sampling and reviewing documentation for subscribers enrolled at addresses that have 25 or more subscribers. Where the address could not reasonably

accommodate a large number of subscribers (such as a shelter or nursing home), or where the service provider cannot provide the required one per household certification from the consumer, USAC will take action to de-enroll the consumer and evaluate any required recovery of funds.

Carriers and their agents enrolling minors and other ineligible subscribers

- In response to the 2017 GAO Report, Chairman Pai directed USAC to require all ETCs with GAO-identified potentially ineligible subscribers to verify the eligibility of such subscribers and de-enroll any whose eligibility cannot be verified, once USAC has received the list of potentially ineligible subscribers from the GAO. The GAO is working on preparing that list for delivery to the FCC's EB and OIG. Chairman Pai has also directed USAC to audit and conduct a monthly review of a statistically valid sample of enrolled or recertified subscribers for the ten ETCs with the most potentially ineligible subscribers in the GAO's list. USAC will refer any substantial enrollment or recertification of ineligible subscribers to the FCC's EB and OIG.
- The National Verifier, scheduled to launch in six states in December 2017, will conduct the eligibility verification process for the Lifeline program, so the program will no longer rely on providers to make the eligibility determination. The Commission has directed USAC to expand the National Verifier to all states and territories by December 2019. The National Verifier will directly review eligibility documentation and will not permit any person under the age of 18 to enroll in the program without documentation that they are an emancipated minor. Using the National Verifier system, as part of the annual re-certification, subscriber eligibility will be re-checked through the system's available sources of data. If no data sources are available, USAC will require each subscriber to certify their continued eligibility through self-attestation directly to USAC, as required by the FCC's rules.
- USAC has implemented audit and review processes to protect the Lifeline program against ineligible subscribers. For example, following modification of the document retention rules in the *2015 Lifeline Reform Order*,³⁰ USAC revised its audit procedures for BCAP and PQA reviews to include testing of eligibility documentation for subscribers.
- As part of the Lifeline Safeguards Plan, USAC will, in addition to PQA and BCAP audits, conduct monthly sampling of enrollments and recertifications to review the work of the carriers. This process will include a review of any documentation used to verify eligibility. This sampling process will also be focused on the highest risk carriers as identified by the GAO. If USAC's review finds the enrollment or recertification to be unsupported, it will take steps to de-enroll the subscriber and evaluate any required recovery of funds.

Carriers having no evidence to support enrollment and de-enrollment of subscribers

- In addition to the review discussed above of ETCs identified by GAO as having potentially ineligible subscribers, USAC now conducts audits that review subscribers' eligibility documentation.
- The National Verifier will conduct the eligibility verification process, so the Lifeline program will no longer rely on providers to make the eligibility determination. As noted, the Commission has directed USAC to expand the National Verifier to all states and territories by December 2019.
- Carriers are required to retain documentation that substantiates the eligibility of an enrolled consumer, and USAC has updated its audit and operational processes to review such documentation now that it is available.
- In the past, service providers claimed reimbursement from the Lifeline program on the FCC Form 497. This process creates a risk that Lifeline service providers may be claiming subscribers that were not validated by the NLAD. In the *2016 Lifeline Modernization Order*, the FCC directed USAC to pay service

³⁰ *Lifeline and Link Up Reform and Modernization, et al.*, WC Docket No. 11-42, et al., Second Further Notice of Proposed Rulemaking, Order on Reconsideration, Second Report and Order, and Memorandum Opinion and Order, 30 FCC Rcd 7818, 7891, para. 224 (2015) (*2015 Lifeline Reform Order*) ("In this Order, we require ETCs to retain documentation demonstrating subscriber eligibility for the Lifeline Program as well as documentation used in NLAD processes.").

providers based on the number of subscribers enrolled in NLAD, which significantly reduces this risk. Beginning with the January 2018 data month (February 2018 disbursement), all Lifeline program reimbursement claims will be calculated based on the subscribers recorded in the NLAD. Also, until the FCC Form 497 is eliminated in January 2018, USAC is rejecting any reimbursement requests where the subscriber count exceeds the records in NLAD.

- With the launch of the National Verifier, USAC will re-verify the eligibility of all existing subscribers. If eligibility cannot be determined by an automated data source, USAC will require service providers to either: (1) submit supporting subscriber documentation or (2) obtain current eligibility documentation from subscribers and submit it to the National Verifier for review. If eligibility documentation cannot be obtained or the documentation submitted is not sufficient, USAC will de-enroll those subscribers from the NLAD and notify the service provider.

Carriers or their agents enrolling deceased subscribers

- In response to the 2017 GAO Report, Chairman Pai directed USAC to require ETCs to de-enroll the deceased subscribers referenced in the GAO report, once USAC has received the list of potentially ineligible subscribers from the GAO. The GAO is working on preparing that list for delivery to the FCC's EB and OIG. The Chairman also directed USAC to review a statistically valid risk-based sample of recently enrolled or recertified subscribers against the Social Security Master Death Index. USAC shall pursue monetary recovery where appropriate and refer ETCs with substantial enrollment or recertification of deceased individuals to the EB and OIG.
- USAC is adding functionality to the NLAD that will validate subscribers against the Social Security Master Death Index. After USAC accesses the index, USAC will validate existing subscribers against the index and take steps to de-enroll any deceased subscriber. USAC will recover any improperly disbursed support. In addition, by the end of the year, the third-party identity validation (TPIV) will include a check against the index at the time of subscriber enrollment in NLAD. This process will mitigate fraudulent attempts at using a deceased person's identity to obtain a Lifeline benefit.

A lack of accountability over sales agents and payment structures that incentivize fraud

- The Commission is currently considering a draft NPRM that seeks comment on prohibiting sales commissions for agents and other representatives of ETCs who handle the enrollment process. The NPRM also seeks comment on codifying a requirement that agents register with USAC before participating in the enrollment process.
- In response to the 2017 GAO report, Chairman Pai directed USAC to require ETC sales agents to register with USAC and create controls that lock sales agents out of the system after too many invalid entries.
- The National Verifier will enable USAC to associate activity taken on accounts in the National Verifier with the individual sales agent, when a sales agent is involved. USAC is also considering how this system could be registered to track sales agent in non-National Verifier states until the National Verifier has launched in those states. The National Verifier will require any sales agent that assists a consumer in applying for Lifeline to be registered and to have an account with unique login credentials, including a user name and password. For a sales agent to register, the ETC will first need to grant access to the agent. Then the sales agent will need to go into the system to create an account used to track his or her activity. As USAC considers how to track activity in non-National Verifier states and in non-National Verifier systems, it is developing requirements for a sales agent registry. At this point, USAC plans on requiring agents to provide their full names, date of birth, and the last four digits of the agent's social security number.
- The National Verifier will track all sales agent activity in the system. In addition, USAC is designing additional functionality for a sales agent registry that will collect information on sales agents and employees who interact with Lifeline subscribers and perform enrollment and transfer functions within NLAD and the National Verifier. This functionality, at a minimum, will have the following attributes: (1) ability to generate a unique identifier that is linked to the service provider identification number (SPIN)

and study area code (SAC) combination; (2) contain functionality that requires ETCs to recertify sales agents on a quarterly or semi-annual basis and lockout agents who perform too many invalid enrollment attempts; and (3) incorporate measures to prohibit barred agents from registering in the system under a different SPIN/SAC combination.

- In 2015, EB reached settlement agreements with several companies concerning ineligible subscribers and other de-enrollment issues. In addition to full recovery of the universal funds received for ineligible subscribers, the three companies also paid a total of \$14.4 million in civil penalties, and committed to meaningful compliance requirements intended to reduce fraud, waste, and abuse.
- In December 2016, EB, in coordination with the U.S. Department of Justice and OIG, entered into a \$30 million global settlement with a company, resolving parallel investigations which involved Lifeline violations. In the Consent Decree, the company admitted its field agents engaged in “fraudulent practices.” As a condition of the settlement, the company returned \$15 million to the USF and permanently relinquished all of its authorizations to participate in the Lifeline program.

III. TV BROADCASTER RELOCATION FUND

In its Memorandum, OIG summarizes the Spectrum Act requirement for the Commission to make reimbursements to broadcasters for the reasonable costs associated with the post incentive auction relocation/repacking within a 39-month period. OIG states the “FCC must establish effective internal controls to minimize risk and ensure the best use of resources to successfully implement its objectives while safeguarding TV Broadcaster Relocation Fund assets.”

The incentive auction closed on April 13, 2017, with the release of the Closing and Channel Reassignment Public Notice, which announced the winning bidders in both the forward and reverse auctions and the channel reassignments for broadcast TV stations that will be “repacked” in the new Broadcast TV Band. The release of that notice started the 39-month transition period during which the Incentive Auction Task Force, the Media Bureau, and OMD’s Financial Operations team are charged by the Commission with reviewing and administering the distribution of the Relocation Fund to the 957 full power and Class A television stations that are eligible for reimbursement of their costs incurred as a result of that channel reassignment (Eligible Entity). Meeting the Commission’s 39-month timetable requires that the reimbursement procedures efficiently process reimbursement requests while also ensuring that effective internal controls are in place to safeguard the fund by preventing fraud, waste, and abuse.

The Commission recognizes this challenge as well and is pleased to report on the FCC’s effort to establish effective procedures and internal controls to minimize risk and ensure the best use of resources to successfully implement its objectives while safeguarding Relocation Fund assets. In the *Incentive Auction Report and Order*, the Commission mandated, and the staff has implemented, a plan for disbursements from the Relocation Fund to safeguard the Relocation Fund assets. Most notably, these safeguards include the following procedures and controls:

Cost Catalog. The Commission delegated authority to the Media Bureau to develop a catalog of eligible reimbursement expenses to facilitate the process of reimbursing stations and multichannel video programming distributors (MVPDs) eligible for reimbursement. In 2013 the Media Bureau engaged the services of a contractor with expertise in broadcast engineering to survey the industry to identify these types of expenses and obtain pricing information concerning the costs commonly anticipated to be incurred as a result of the post-incentive auction broadcast transition. The results of that survey were used to develop a cost catalog containing a non-exhaustive list, organized by category, of the equipment and services together with prices for each line item. In 2016, the Media Bureau engaged the contractor to update the original catalog with a second survey aimed at identifying changes in prices and equipment. Throughout this process, the results of the survey have been released for public comment three times, in September 2013, March 2014, and October 2016, before ultimately being adopted as the cost catalog. The cost catalog provides guidance to Eligible Entities regarding reimbursable expenses and facilitates the identification of cost outliers that may require further scrutiny by the

Commission. In addition, after public comment, the Media Bureau also adopted a methodology for annually adjusting the cost catalog's prices in accordance with the Bureau of Labor Statistics' Producer Price Index. The cost catalog has been fully integrated into the Commission's processes and procedures for Eligible Entities to submit information regarding reimbursement to the FCC.

Estimate Review. The Commission's *Incentive Auction Report and Order* mandates that by a date certain, in most instances July 12, 2017, Eligible Entities seeking reimbursement were to submit to the Commission their initial estimates of the costs they expect to incur during the repack and to provide justification when any estimated cost for services or equipment exceeds the predetermined cost contained in the cost catalog. Eligible Entities may modify or submit additional estimates as their planning and construction proceeds. If a broadcaster or MVPD submits an estimate for reimbursement for anything not included in the cost catalog, it is required to submit a price quote obtained from a vendor.

The Commission's Order further required the Media Bureau to review the initial estimates and make an initial reimbursement allocation for each Eligible Entity that filed cost estimates. The allocated amount is the dollar amount that stations and MVPDs will have to draw down against as they incur approved expenses. Pursuant to the Commission's Order, once Eligible Entities incur actual costs, they must file actual reimbursement claims along with supporting invoices and other cost documentation. An Eligible Entity must provide a detailed explanation if an actual cost exceeds the estimated cost for a line item. Entities may, and likely will, submit multiple reimbursement requests as they incur expenses throughout the reimbursement period. Reimbursement payments can be made only during the statutory three-year reimbursement period. As such, the Commission's Order requires that the Media Bureau announce a date prior to the end of the reimbursement period by which time all Eligible Entities must submit remaining expense documentation and additional estimates for work not yet completed.

Fund Administrator. The Commission's *Incentive Auction Report and Order* also directed the Media Bureau to engage and oversee a contractor to assist in the administration of the Relocation Fund. In January 2017, the Media Bureau formally engaged a professional services team to begin work as Fund Administrator. The contract, which was awarded after an open, competitive procurement, is comprised of professionals with experience in the fields of funds administration, accounting, government auditing, and broadcast engineering. Specifically, the contractor is a professional services team with extensive federal fund management, accounting, and auditing experience, and its subcontractor has extensive television broadcast engineering experience. As required by the contract, the Fund Administrator drafted, and the Media Bureau approved, key programmatic documentation requirements, including business process workflows, internal controls documentation, methods and procedures, and a program monitoring and compliance plan.

Third Party Review of Internal Controls. The FCC hired a professional services contractor to perform a review of the internal controls put in place by the Fund Administrator and Media Bureau for reviewing estimates and requests for reimbursement. The contractor concluded that the "process supporting payments for reimbursing eligible entities appears to be robust and provide adequate controls." However, the contractor identified two design control deficiencies (one as low risk and the other as very low risk), and deficiencies related to undefined processes (two as medium risk and one as low risk). The Media Bureau is working with the Fund Administrator to address these minor deficiencies.

Allocation Process. Prior to the calculation and release of an initial allocation, the Fund Administrator conducted a detailed review of the initial cost estimates submitted by Eligible Entities, including requests for additional information from more than 80 percent of entities, in order to provide the Media Bureau with sufficient confidence that the estimates submitted could be deemed "reasonable" under the statutory standard for reimbursement. The Media Bureau reviewed the Fund Administrator's evaluations and verified each cost estimate prior to making its initial allocation.

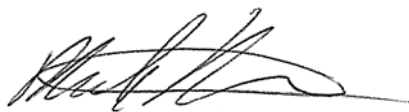
The Commission decided in the *Incentive Auction Report and Order* to allocate funding in tranches, including an initial allocation to help stations cover upfront expenditures (such as planning, engineering studies, etc.),

equipment down payments, and other ancillary charges. This approach seeks to provide Eligible Entities with access to the funding necessary to timely begin their relocation work while avoiding undue financial burden. Making allocations in more than one tranche also takes into account that the estimates of many Eligible Entities may be refined and change over time as they move forward with planning, provisioning, and construction. This approach allows the Media Bureau to review such changes and make additional allocations based upon the most accurate and complete information available. Issuing multiple allocations also provides the Media Bureau with flexibility to monitor closely the draw-down of funds and make any necessary adjustments prior to a subsequent allocation. This staged process will therefore permit the Media Bureau to make timely allocations to keep the process moving forward, while reducing the likelihood that excess funds are allocated that would require the Commission to reduce future allocations or claw-back payments that have already been drawn down.

Site Visits. The Commission also prescribed the use of site visits, audits and data validations in the *Incentive Order Report and Order* to verify compliance with program rules. The Media Bureau and OMD will direct a series of site visits in order to validate the baseline equipment and/or equipment reimbursed by the Relocation Fund reported by Eligible Entities. These site visits will determine the risk, if any, that stations and MVPDs have misreported the type or operational status of equipment in use prior to the repack which might inflate the reimbursement amount to which a station or MVPD is eligible.

Payment Process. Once an Eligible Entity's request for reimbursement has been reviewed by the Fund Administrator to assure that it contains the necessary cost justification and meets the requisite eligibility criteria, and the Media Bureau verifies the Fund Administrator's finding, the request is submitted to the Commission's Financial Operations group for payment. Financial Operations has established a series of internal controls to ensure that the banking information submitted by the Eligible Entity is valid, and that payments are made only to the appropriate Eligible Entity. These controls include, among other things, verification of banking information, Media Bureau authorization, signature name, reimbursement amount, and vendor name.

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.



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