FEDERAL COMMUNICATIONS COMMISSION

Agency Financial Report

Fiscal Year 2019

(October 1, 2018 – September 30, 2019)

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I. MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Message from the Chairman

As Chairman of the Federal Communications Commission (FCC or Commission), I am pleased to present the FCC's fiscal year (FY) 2019 Agency Financial Report. This report provides useful financial and performance information about the FCC's activities over the course of FY 2019.

Under my leadership, the Commission has acted to link the FCC's mission to its strategic goals, which include closing the digital divide, promoting innovation, protecting consumers and public safety, and reforming the FCC's processes. Below are examples of the Commission's substantial efforts to carry out its mission during the past fiscal year.

To accelerate the deployment of 5G, the next generation of wireless broadband connectivity, the FCC has developed and is executing a comprehensive strategy that will Facilitate America's Superiority in 5G Technology (the 5G FAST Plan). The Plan has three key components: (1) pushing more spectrum into the marketplace; (2) promoting the deployment of wireless infrastructure; and (3) modernizing outdated regulations. Regarding spectrum, in January, the Commission finished an auction of spectrum in the 28 GHz band and in May concluded an auction of spectrum in the 24 GHz band. And on December 10, the Commission will start an auction of the upper 37 GHz, 39 GHz, and 47 GHz bands. This auction will be the largest in American history, releasing 3,400 megahertz of spectrum into the commercial marketplace. To better protect consumers from robocalls, the Commission adopted a Declaratory Ruling to make clear that voice service providers may, as the default, block unwanted calls based on reasonable call analytics, as long as their customers are informed and have the opportunity to opt out of the blocking. This action empowers providers to protect their customers from unwanted robocalls before those calls even reach the customers' phones. To assist our efforts to close the digital divide, the Commission, in August 2019, adopted the Digital Opportunity Data Collection, an entirely new broadband mapping initiative that will provide the Commission with granular, precise broadband deployment maps depicting exactly where broadband networks are deployed. As part of this mapping program, the Commission will for the first time incorporate public feedback—or "crowdsourcing"—from members of the public along with state, local, and Tribal governments into broadband maps. Furthermore, the Commission adopted an order in December 2018 that provided high-cost universal service support to small, rural carriers in return for a commitment to provide 25/3 Mbps service to more than 466,000 rural homes and businesses. And in September 2019, the Commission approved nearly $1 billion to expand, improve, and storm harden broadband networks in Puerto Rico and the U.S. Virgin Islands to ensure that Americans living there will have access to fast, resilient, and reliable broadband services.

In addition, I am pleased to report that for the fourteenth straight year the FCC has received an "unmodified" opinion on its financial statements from the FCC's Office of Inspector General's independent auditors. Maintaining proper stewardship over the Commission's resources is a team effort, and I am grateful to the FCC's staff for ensuring the FCC's continued financial management success this year. As noted by the auditors, the FCC still can make improvements, and I welcome the findings from the independent auditors' report as well as the management challenges from the Office of Inspector General. The Commission will work to address these findings and concerns. Moving forward, I remain focused on promoting the public interest by taking actions that result in more innovation, more investment, better products and services, lower prices, more job creation, and faster economic growth.

Ajit Pai
Chairman
November 19, 2019

Overview of the Federal Communications Commission

Introduction

Office of Management and Budget (OMB) Circular No. A-136, released on June 28, 2019, states that agencies may choose to produce either a consolidated Performance and Accountability Report (PAR) or a separate Agency Financial Report (AFR) with an Annual Performance Report (APR). The Federal Communications Commission (FCC, Agency, or Commission) has chosen to produce the AFR. The FCC will include its Fiscal Year (FY) 2019 APR with its Congressional Budget Justification and will post it on the Commission's website at https://www.fcc.gov/about/strategic-plans-budget.

The Commission's AFR includes three sections:

Section 1 consists of Management's Discussion and Analysis (MD&A) that presents a message from the Chairman, an overview of the FCC, including the senior leadership, Agency's mission and vision statements, organizational structure, organizational chart, map of field offices, strategic goals and objectives, strategies and resources to achieve goals, entity 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, 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 located in Atlanta, GA, Columbia, MD, and Los Angeles, CA.

Senior Leadership

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

The Chairman serves as the Chief Executive Officer of the Commission, supervising all FCC activities, delegating responsibilities to Offices and Bureaus, and formally representing the Commission before the Congress and the Administration.

The current Chairman and the Commissioners are:

- Chairman Ajit Pai
- Commissioner Michael O'Rielly
- Commissioner Brendan Carr
- Commissioner Jessica Rosenworcel
- Commissioner Geoffrey Starks

Pictured from left to right are Commissioner Jessica Rosenworcel, Commissioner Michael O'Rielly, Chairman Ajit Pai, Commissioner Brendan Carr, and Commissioner Geoffrey Starks.

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, and in addition, the Office of Economics and Analytics manages the auctions program. 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 disability access and policies 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. In addition, the Bureau's Disability Rights Office provides expert policy and compliance advice on accessibility with respect to various forms of communications for persons with disabilities.

- **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, resolves intercarrier disputes, 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, interconnected, and interoperable communications infrastructure on a global scale.

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[1] 47 U.S.C. § 151.

[2] *Id.*

- **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.

- **The Public Safety and Homeland Security Bureau** develops and implements policies and programs to strengthen public safety communications, homeland security, national security, emergency management and preparedness, disaster management, and network reliability. These efforts include rulemaking proceedings that promote more efficient use of public safety spectrum, improve public alerting mechanisms, enhance the nation's 911 emergency calling system, and establish frameworks for communications prioritization during crisis. The Bureau also maintains 24/7 operations capability and promotes Commission preparedness to assist the public, first responders, the communications industry, and all levels of government in responding to emergencies and major disasters where reliable public safety communications are essential.

- **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, mobile broadband, and other radio services used by businesses and private citizens.

- **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. The Bureau has primary 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 Economics and Analytics** is responsible for expanding and deepening the use of economic analysis into Commission policy making, for enhancing the development and use of auctions, and for implementing consistent and effective agency-wide data practices and policies. The Office also manages the FCC's auctions in support of and in coordination with the FCC's Bureaus and Offices.

- **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.

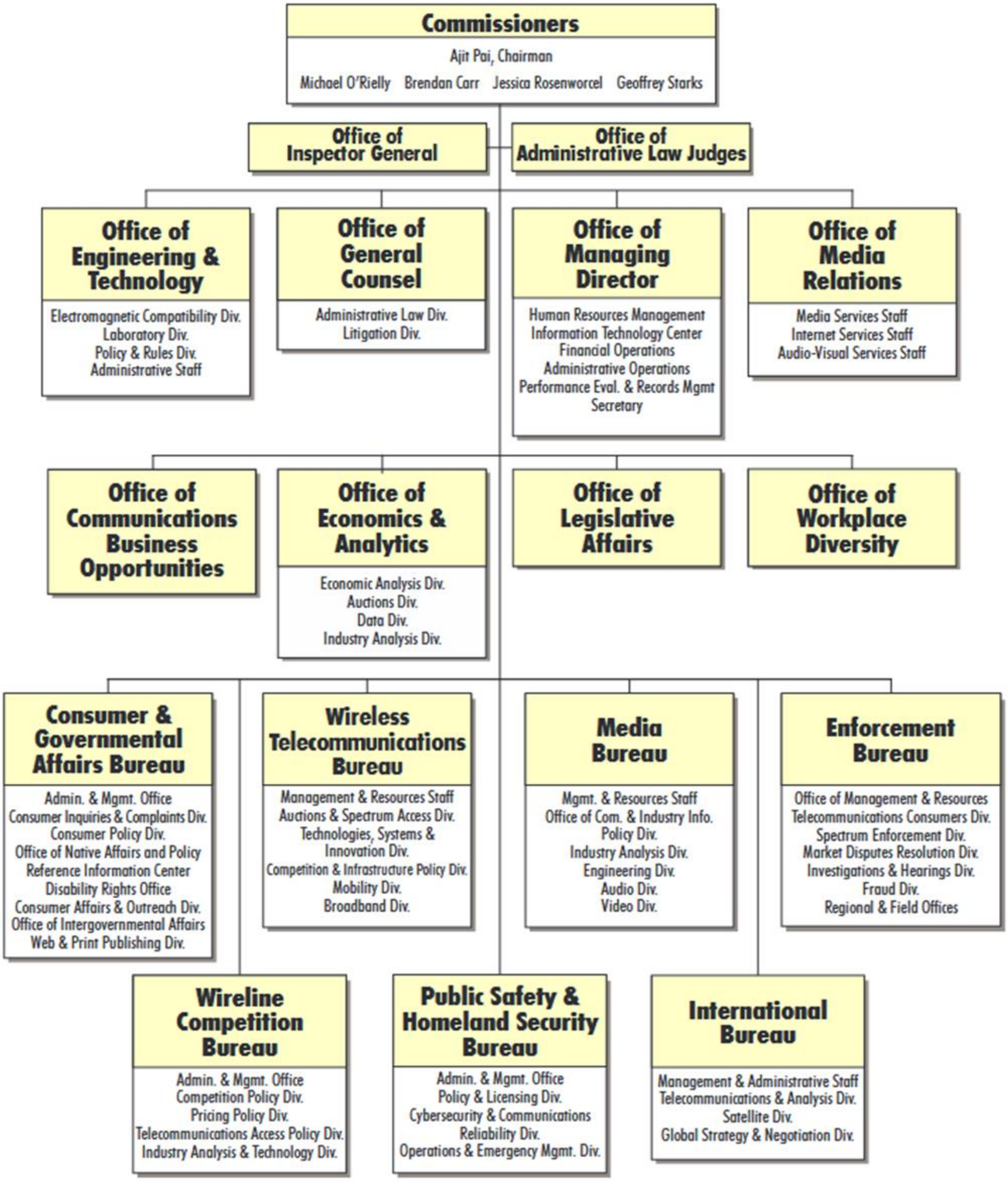
- **The Office of Inspector General** conducts and supervises audits and investigations relating to FCC programs and operations.

- **The Office of Legislative Affairs** serves as the liaison between the FCC and Congress, as well as other Federal agencies.

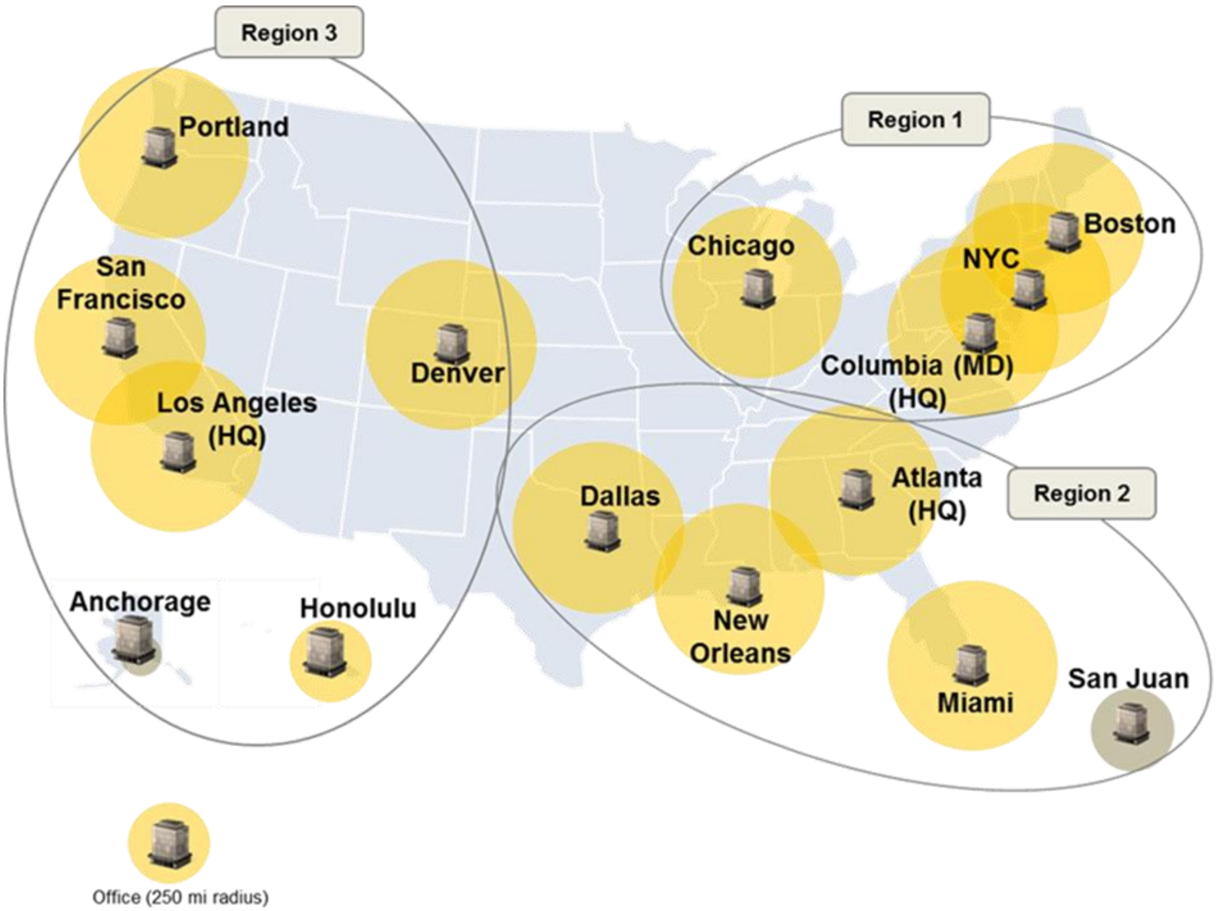
- **The Office of Managing Director** administers and manages the FCC.
- **The Office of Media Relations** informs the media of FCC decisions and serves as the FCC's main point of contact with the media.
- **The Office of Workplace Diversity** ensures that the FCC provides employment opportunities for all persons regardless of race, color, sex, national origin, religion, age, disability, or sexual orientation.

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



Note: The San Juan and Anchorage offices are not staffed 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 a vibrant competitive marketplace driven by principles and policies that create an environment for innovation and investment, better products and services for consumers, lower prices, more job creation, and faster economic growth. The FCC must also provide leadership to ensure that the communications needs of public safety officials are met; promote the universal availability and deployment of broadband and telecommunications services; make communications services accessible to all people; and protect and empower consumers in the communications marketplace. The FCC, in accordance with its statutory authority and in support of its mission, has established four strategic goals. They are:

Strategic Goal 1: Closing the Digital Divide

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. Where the business case for infrastructure investment doesn't exist, employ effective and efficient means to facilitate deployment and access to affordable broadband in all areas of the country.

Strategic Goal 2: Promoting Innovation

Foster a competitive, dynamic, and innovative market for communications services through policies that promote the introduction of new technologies and services. Ensure that the FCC's actions and regulations reflect the realities of the current marketplace, promote entrepreneurship, expand economic opportunity, and remove barriers to entry and investment.

Strategic Goal 3: Protecting Consumers and Public Safety

Develop policies that promote the public interest by providing consumers with freedom from unwanted and intrusive communications, improving the quality of communications services available to those with disabilities, and protecting public safety.

Strategic Goal 4: Reforming the FCC's Processes

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.

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 programs and the Telecommunications Relay Service (TRS) Fund. The TRS Fund represents a program established under section 225 of the Act. This statute provides for a mechanism to support relay services necessary for telecommunications access by speech or hearing-impaired populations.[4]

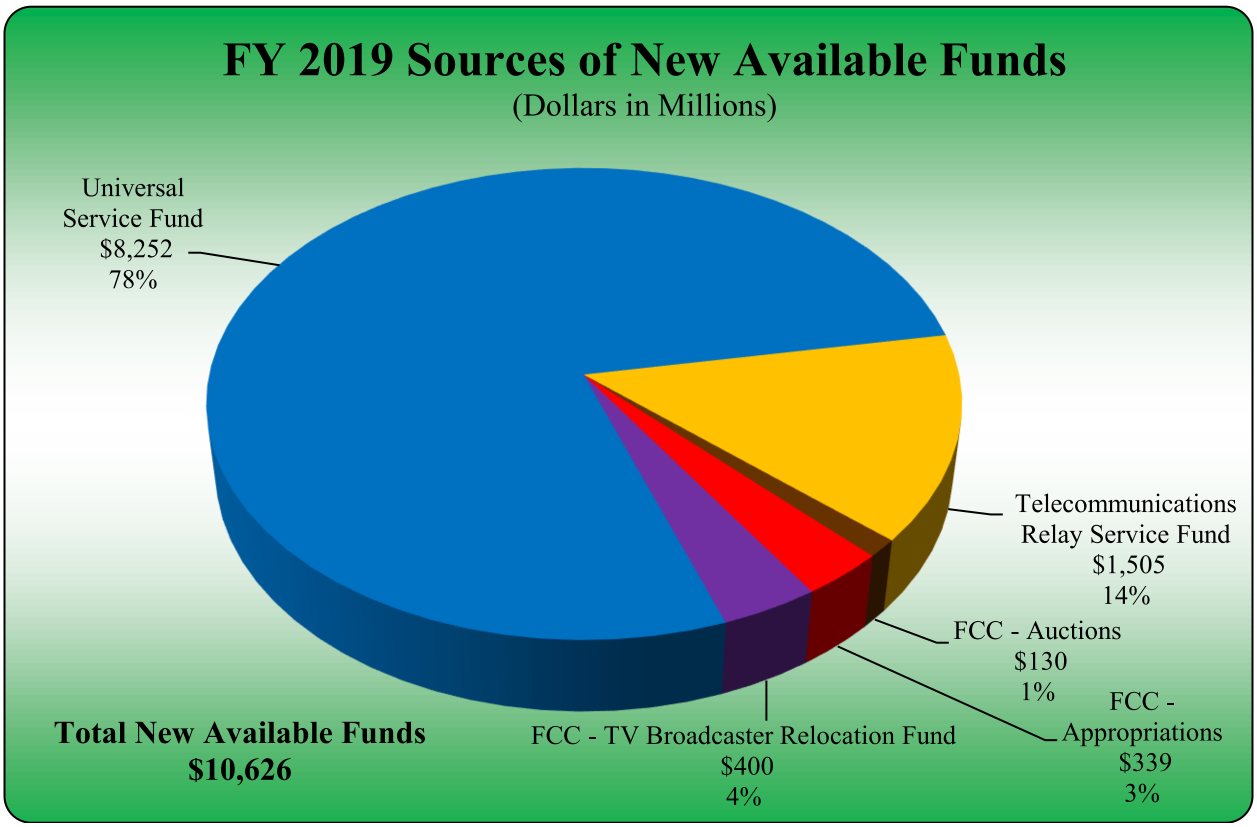
The Universal Service Administrative Company (USAC) administers the four USF programs under the Commission's direction. These four programs are funded through mandatory contributions from U.S. telecommunications service providers, including local and long-distance phone companies, wireless and paging companies, payphone providers, and providers of interconnected Voice over Internet Protocol (VoIP) services. The four universal service programs are: High Cost, Lifeline, Rural Health Care, and Schools and Libraries. These programs 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 programs provide support for discounts to schools and libraries and rural health care providers. In FY 2019, the USF accounted for approximately $8,252 million in new available funds

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

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 2019, TRS Fund accounted for approximately $1,505 million in new available funds on the Commission's Combined Statement of Budgetary Resources. Additional information on RL and TRS Fund can be found at http://www.rolkaloube.com/ and https://www.fcc.gov/general/telecommunications-relay-services-trs.

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



The FCC's Appropriations figure of $339 million in the chart above reflects the authority for the Commission to collect regulatory fees. The TV Broadcaster Relocation Fund was appropriated $400 million in FY 2019 by Section 511 of Title V of Division E of the Consolidated Appropriations Act, 2018, P.L. 115-141, also known as the Reimbursement Expansion Act (REA). The $130 million for the FCC's Auctions program in the chart above is collections from auctions used to offset the cost of performing auctions-related activities.

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

CLOSING THE DIGITAL DIVIDE

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. Where the business case for infrastructure investment doesn't exist, employ effective and efficient means to facilitate deployment and access to affordable broadband in all areas of the country.

A key priority for the FCC is to close the digital divide in rural America. The FCC continued to use auction mechanisms as well as other funding models to increase broadband service in rural areas.

- The FCC conducted the Connect American Phase (CAF) II reverse auction which allocated $1.49 billion in support to be distributed over the next 10 years to expand broadband service in unserved areas in 45 states. Over 700,000 rural homes and small businesses will gain access to high-speed Internet service for the first time as a result. As of the end of FY 2019, the FCC has authorized five waves of funding, bringing total authorized funding for the auction to over $1 billion, and expanding connectivity to nearly 388,000 homes and businesses nationwide. This includes funding waves of $112.2 million to expand broadband to nearly 48,000 unserved rural homes and businesses in five states; $121 million, expanding connectivity to 36,579 unserved rural homes and businesses in 16 states; $524 million to 205,520 unserved rural homes and businesses in 23 states; $166.8 million to 60,850 unserved rural homes and businesses in 22 states; and $111.6 million to expand broadband to 37,148 unserved rural homes and businesses in 12 states.
- The FCC authorized two waves of funding over the next decade through the Connect America Fund to expand broadband in in upstate New York through matching funds provided in a partnership with the state's New NY Broadband Program. In the first wave, the FCC authorized over $39.2 million in federal funding over the next decade to expand broadband to 15,442 unserved rural New York homes and businesses. In the second wave, the FCC authorized nearly $16.2 million to expand broadband to 8,088 unserved rural New York homes and businesses.
- The FCC authorized over $4.9 billion in support over the next decade for maintaining, improving, and expanding affordable rural broadband for 455,334 homes and businesses served by 171 carriers in 39 states and American Samoa, including 44,243 locations on Tribal lands. The homes and businesses are located in sparsely populated rural areas where the per-location price of deployment and ongoing costs of providing broadband service are high, requiring support from the FCC's Universal Service Fund to facilitate network improvements and keep rates reasonably comparable to those in urban areas. The support is targeted to smaller rural carriers, traditionally known as "rate-of-return" carriers. These carriers agreed this year to accept subsidies based on the FCC's Alternative Connect America Cost Model (A-CAM) II. The FCC also authorized and directed USAC to obligate and disburse the appropriate transition payments to 35 carriers for whom the A-CAM II support amount is less than legacy support received in 2018. The transition payments total $109.6 million over the term of support.

- The FCC approved allocations of $950 million in funding to improve, expand, and harden communications networks in Puerto Rico and the U.S. Virgin Islands. After communications infrastructure on the islands was devastated by Hurricanes Irma and Maria two years ago, the FCC created the Uniendo a Puerto Rico Fund and the Connect USVI Fund. To date, the FCC has provided about $130 million in additional, one-time Universal Service Fund support to assist with network restoration. With restoration work substantially complete, the FCC approved the next stage of funding to provide mid-term and long-term support to deploy fast, resilient, and reliable networks. In Puerto Rico, the FCC will allocate more than $500 million over ten years in fixed broadband support and more than $250 million over three years in mobile broadband support. In the U.S. Virgin Islands, the FCC allocated more than $180 million over ten years in support for fixed networks, and $4 million over three years for mobile networks. Fixed broadband support will be awarded through a competitive process, and support for mobile services will be awarded to providers that were offering mobile services in the Territories prior to the hurricanes.
- The FCC proposed the Rural Digital Opportunity Fund, which would direct up to $20.4 billion to expand broadband in unserved rural areas. The proposal would make more areas eligible for support and require faster service than last year's CAF Phase II reverse auction. In a Notice of Proposed Rulemaking, the FCC sought comment on continuing the expansion of broadband by using a reverse auction that builds on the success of last year's CAF Phase II auction. The Rural Digital Opportunity Fund would focus on areas currently served by "price cap" carriers, along with areas that were not won in the CAF Phase II auction and other areas that do not currently receive any high-cost universal service support.
- The Commission adopted rules of the road for the upcoming transition between legacy CAF support in certain price cap areas, and new, auction-based support for voice and broadband. The funds are targeted to areas where the incumbent provider-large carriers known as price cap carriers-declined a 2015 offer of CAF Phase II mode-based support. The Order provided clarity and certainty to providers during this transition, while ensuring that existing voice service is maintained throughout the process for customers.

The FCC established Digital Opportunity Data Collection, a new process for collecting fixed broadband data to better pinpoint where broadband service is lacking. The new data collection will collect geospatial broadband coverage maps from fixed broadband Internet service providers, will facilitate the development of high-quality fixed broadband deployment maps, and improve the FCC's ability to target support for broadband expansion through the agency's Universal Service Fund programs. The FCC's Report and Order adopted a process to collect public input on the accuracy of service providers' broadband maps and made targeted changes to the existing Form 477 data collection to reduce reporting burdens for all filers and incorporate new technologies.

The FCC's *2019 Broadband Deployment Report* showed that the number of Americans lacking access to a terrestrial fixed broadband connection meeting the FCC's benchmark of at least 25/3 Mbps has dropped from 26.1 million Americans at the end of 2016 to 21.3 million Americans at the end of 2017, a decrease of more than 18%. The majority of those gaining access to such connections, approximately 4.3 million, are in rural America. The Report also showed that higher-speed services are being deployed at a rapid rate as well. The number of Americans across the United States with access to at least 250/25 Mbps broadband grew in 2017 by more than 36%, to 191.5 million, and the number of Americans in rural areas with access to such broadband increased by 85.1% in 2017.

The FCC adopted new rules to promote broadband investment and deployment by prohibiting excessive franchise fees and explaining that local governments may not regulate most non-cable services, including broadband Internet access service, offered over a cable system. These rules respond to a remand by the U.S. Court of Appeals for the Sixth Circuit.

The FCC promoted telehealth in rural America through reforms to the Rural Health Care Program that ensure program funds are disbursed efficiently and equitably, promote transparency and predictability in the program's administration, and strengthen safeguards against waste, fraud, and abuse. The FCC's Report and Order also outlined program reforms to target funding to rural areas in the most need of health care services.

The FCC liberalized the rules for the 2.5 GHz band, allowing more entities to access the spectrum and eliminating unnecessary restrictions. With almost 200 megahertz, this is the largest contiguous band of terrestrial, flexible use spectrum below 3 GHz in the United States and is well-suited to providing service in rural areas. To bridge the digital divide, the FCC is giving Tribes first access to this greenfield spectrum to bring broadband to rural Tribal lands. The Commission will then make the remaining unassigned 2.5 GHz spectrum available for commercial use through an auction.

PROMOTING INNOVATION

Foster a competitive, dynamic, and innovate market for communications services through policies that promote the introduction of new technologies and services. Ensure that the FCC's actions and regulations reflect the realities of the current marketplace, promote entrepreneurship, expand economic opportunity, and remove barriers to entry and investment.

The FCC took action to encourage innovation of new technologies and services in unlicensed spectrum:

- The FCC adopted an Order creating a new category of experimental licenses for frequencies between 95 GHz and 3 THz to encourage the development of new communications technologies and expedite the deployment of new services. The item also made 21.2 gigahertz of spectrum available for use by unlicensed devices, while limiting the potential for interference to existing governmental and scientific operations in the above-95 GHz bands.
- The FCC proposed making up to 1,200 megahertz of spectrum available for use by unlicensed devices in the 6 GHz band (5.925-7.125 GHz). The proposed rules are designed to allow unlicensed devices to operate in the 6 GHz band without interfering with the operation of the licensed services using this spectrum.

The FCC took several actions to increase spectrum flexibility for use in 5G deployment as part of its comprehensive strategy to Facilitate America's Superiority in 5G Technology (the 5G FAST Plan):

- The FCC announced the successful conclusion of bidding for the Spectrum Frontiers auctions of Upper Microwave Flexible Use Service licenses in the 28 GHz and 24 GHz bands to speed the deployment of 5G services. With the completion of Auctions 101 and 102, the FCC completed its first set of high-band airwaves auctions to make spectrum available for 5G wireless, the Internet of Things, and other advanced spectrum-based services.
- The FCC adopted new rules to promote the availability of high-band millimeter wave spectrum for next-generation wireless connectivity. The Order harmonized the band plans for the Upper 37 GHz, 39 GHz, and 47 GHz bands to include 100 megahertz blocks to facilitate the simultaneous auction of licenses in the three bands. The FCC's Order also adopted an incentive auction mechanism that will offer contiguous blocks of spectrum throughout the Upper 37 GHz, 39 GHz, and 47 GHz bands, while preserving spectrum usage rights for existing licensees. In furtherance of this effort, the FCC established procedures for the third auction of high-band, flexible-use licenses suitable for 5G. This auction of airwaves in the Upper 37 GHz, 39 GHz, and 47 GHz spectrum bands, scheduled to commence on December 10, 2019, will be the largest spectrum auction in history, offering licenses covering up to 3,400 megahertz. These bands of spectrum are suited for the development of 5G, the Internet of Things, and other advanced spectrum-based services.

The FCC established key dates, deadlines, and procedures for an experimental auction of certain sought-after toll-free numbers in the 833 code. The auction will be the first time that the FCC will use an auction mechanism to assign toll free numbers and will include approximately 17,000 numbers in the 833 toll-free code for which there have been multiple, competing requests. The FCC will study the results of the auction to assess how best to distribute future toll-free numbers equitably and efficiently.

In 2015, the Commission established rules to facilitate shared access between federal and non-federal use of the 3.5 GHz band, creating a three-tiered framework of users consisting of Incumbents, Priority Access Licenses, and General Authorized Access users. In 2018, the FCC adopted a Report and Order modifying the rules governing the Citizens Broadband Radio Service in the 3.5 GHz band to promote investment and encourage broader deployment. In September 2019, the FCC authorized five Spectrum Access System administrators to begin initial commercial deployments. And the Commission established procedures for an auction of 70 MHz of Priority Access Licenses in the 3.5 GHz band, with that auction scheduled to begin on June 25, 2020.

The Commission began accepting and granting applications to let television broadcasters use the Next Generation broadcast television transmission standard, also called ATSC 3.0. The Next Generation TV standard lets broadcasters provide consumers with more vivid pictures and sound, including Ultra High Definition television and superior reception, mobile viewing capabilities, advanced emergency alerts, better accessibility features, localized content, and interactive educational children's content.

PROTECTING CONSUMERS AND PUBLIC SAFETY

Develop policies that promote the public interest by providing consumers with freedom from unwanted and intrusive communications, improving the quality of communications services available to those with disabilities, and protecting public safety.

The FCC has acted aggressively to target and eliminate unlawful robocalls, which are the number one consumer complaint to the FCC from the public. The FCC released its first-ever Robocall Report, a comprehensive report which discusses widespread implementation by providers of the proactive blocking of invalid, unallocated and unused numbers, agency development of the reassigned number database, aggressive Commission enforcement against illegal robocallers, and critical consumer education work done by both the FCC and the Federal Trade Commission.

- The FCC approved a Declaratory Ruling to make clear that voice service providers may, as the default, block unwanted calls based on reasonable call analytics, as long as their customers are informed and have the opportunity to opt out of the blocking. This action empowers providers to protect their customers from unwanted robocalls before those calls even reach the customers' phones. While many phone companies offered their customers call blocking tools on an opt-in basis, the Declaratory Ruling clarifies that they can provide them as the default. The ruling also clarifies that providers may offer their customers the choice to opt-in to tools that block calls from any number that does not appear on a customer's contact list or other "white lists." This option would allow consumers to decide directly whose calls they are willing to receive. The Commission also adopted a Notice of Proposed Rulemaking that proposes requiring voice service providers to implement the SHAKEN/STIR caller ID authentication framework, if major voice service providers fail to do so by the end of this year. The FCC's Notice of Proposed Rulemaking also seeks comment on whether the Commission should create a safe harbor for providers that block calls that are maliciously spoofed so that caller ID cannot be authenticated and that block calls that are "unsigned."
- The FCC adopted new rules banning illegal spoofed text messages and international calls to address consumer concerns about unwanted text messages and scam calls from overseas. The Truth in Caller ID Act of 2009 prohibits anyone from transmitting misleading or inaccurate caller ID

information ("spoofing") with the intent to defraud, cause harm, or wrongly obtain anything of value. Until the passage of the RAY BAUM'S Act of 2018, these consumer protections did not extend to text messages or international calls. The new rules closed a loophole that prevented the agency from pursuing scammers sending spoofed text messages and allowed the FCC to bring enforcement actions against bad actors from overseas. The new rules extended these prohibitions to text messages, calls originating from outside the United States to recipients within the United States, and additional types of voice calls, such as one-way Voice over Internet Protocol (VoIP) calls.

- The FCC made clear that wireless providers are authorized to continue efforts to stop unwanted text messaging through robotext-blocking, anti-spoofing measures, and other anti-spam features. The FCC denied requests from mass-texting companies to classify text messaging services as "telecommunications services" subject to common carrier regulation under the Communications Act – a classification that would have impeded wireless providers' efforts to effectively combat spam and scam robotexts. Instead, the FCC found that two forms of wireless messaging services, Short Message Service (SMS) and Multimedia Messaging Service (MMS), are "information services" under the Communications Act, thus allowing wireless providers to continue taking action to protect American consumers from unwanted text messages.
- The FCC adopted rules to establish a reassigned numbers database to reduce the number of unwanted phone calls Americans receive. The new rules establish a single, comprehensive database with information provided by phone companies that callers will be able to use to avoid calling reassigned numbers. Callers using the database will be able to find out if telephone numbers have been disconnected and made eligible for reassignment. Any such numbers can then be purged from their call lists, thereby decreasing the number of unwanted calls to consumers.

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

- A proposed $63.47 million fine against a wireless reseller for apparent violations of FCC rules governing the Lifeline program, which helps make communications services more affordable for low-income Americans. The FCC found that the reseller, through its sales agents, apparently improperly sought and received Lifeline funding by creating numerous ineligible Lifeline subscriber accounts. In addition, the company apparently filed inaccurate forms with the Lifeline program administrator and apparently failed to de-enroll subscribers it knew or should have known were ineligible to receive Lifeline support.
- A $2.32 million fine against a phone company for deceptive marketing practices, slamming and cramming. The FCC's investigation found that the company misrepresented its identity to consumers in order to deceive them.
- A proposed $233,000 fine against four subsidiaries for apparent violations of the FCC's sponsorship identification rules, and for apparently failing to promptly self-report some of these violations to the FCC despite its agreement to do so under a prior Consent Decree.
- A proposed forfeiture of $100,000 against a company for apparently repeatedly engaging in prohibited communications of its bidding and bidding strategies during the Commission's CAF Phase II auction (Auction 903), and its failure to timely report such prohibited communications.
- A proposed forfeiture of $75,000 against a telecommunications company for apparently engaging in prohibited communications during the Commission's CAF Phase II auction (Auction 903) and failing to timely report such prohibited communications.
- Several actions against companies for operating devices that caused interference to the terminal doppler weather radar station operated by the Federal Aviation Administration in San Juan, Puerto Rico; collectively proposing almost $100,000 in fines.
- Settlement of an investigation into a company's unauthorized launch and operation of small satellites. The company agreed to a settlement which included a $900,000 penalty, an extended

period of FCC oversight, and a requirement of pre-launch notices to the Commission, among other stipulations.

- Settlements reached with a TV broadcaster, cable TV networks, and a radio broadcaster for misusing Emergency Alert System (EAS) or Wireless Emergency Alert (WEA) tones. Each company aired actual or simulated alert tones in violation of the Commission's rules. The companies agreed to pay over $600,000 in combined civil penalties, and each company committed to a strict compliance plan to ensure such actions do not reoccur. Also, proposed a $272,000 fine against a broadcaster for allegedly broadcasting a simulated EAS tone during a nationally televised episode. The FCC's rules prohibit the broadcasting of EAS tones – including simulations of them – aside from actual emergencies or authorized tests or public service announcements.
- Twenty-one settlement agreements with companies that marketed non-compliant light-emitting diode (LED) signs in violation of the Communications Act and FCC rules. The settlements yielded approximately $850,000 in penalties paid to the U.S. Treasury and commitments to ensure compliance with the law going forward.
- A settlement to resolve an investigation into a company's placement of unauthorized third-party charges and fees onto consumers' bills, known as cramming. As part of the settlement, the company agreed to pay $550,000 to the U.S. Treasury and committed to a compliance plan.
- A settlement agreement with a telecommunications company for $5.25 million for two nationwide voice over LTE 911 outages that collectively knocked out 911 service to millions of wireless customers for over six hours and resulted in emergency call centers not receiving complete and timely notifications of the outages. The company agreed to provide the FCC with a roadmap of the actions it would take to ensure that similar 911 outages are prevented in the future.

The FCC released a final report on the nationwide EAS and WEA tests. The report concluded that EAS and WEA are effective alerting tools and included recommendations for next steps, as well as identifying issues regarding accessibility and recommended actions to help resolve those issues.

The FCC issued its first-ever report on 911 reliability certifications submitted to the Commission. The report analyzed filings by 188 covered 911 service providers and highlighted measures that the industry has taken to ensure reasonable circuit diversity, central office backup power, and diverse network monitoring.

The FCC adopted rules to help ensure that people who call 911 from multi-line telephone systems – which serve hotels, office buildings, and campuses – can reach 911 and be quickly located by first responders. The action implemented Kari's Law, which requires multi-line telephone systems to enable users to dial 911 directly, without having to dial a prefix (such as a "9") to reach an outside line. The new rules also apply dispatchable location requirements to multi-line telephone systems, fixed telephone service, interconnected VoIP services, TRS, and mobile texting services.

The FCC updated its children's television programming rules, providing broadcasters greater scheduling flexibility, enabling them to offer more diverse and innovative educational programming, and relieving unnecessary burdens while ensuring that educational programming remains available to all children. The Report and Order expanded the 7:00 a.m. to 10:00 p.m. timeframe to allow broadcasters to begin airing children's programming one hour earlier, at 6:00 a.m., modified the safe harbor processing guidelines, allowed up to 52 hours a year of children's programming to consist of educational specials and/or short-form programming, and streamlined the children's programming reporting requirements.

The FCC proposed rules to help first responders more accurately locate people who make wireless 911 calls from multi-story buildings. The rules would require wireless providers to meet an increasingly stringent series of location accuracy benchmarks in accordance with a timetable, including provision of the caller's "dispatchable location" (such as the street address and apartment number) or vertical location on a phased-in basis beginning in April 2021. The Commission proposed a vertical (or "z-axis") location accuracy metric of plus or minus three meters relative to the handset for 80 percent of indoor wireless 911 calls.

The FCC adopted a Report and Order to combat issues with rural call completion and set enforceable service quality standards for intermediate providers to help ensure that calls are completed. The Improving Call Quality and Reliability Act of 2017 (RCC Act) gave the FCC new authority over providers, called "intermediate providers," that are central to call completion. Under the RCC Act and rules set by the FCC, providers must register with the FCC, and certain carriers that originate long-distance calls, called "covered providers," may not hand off calls to an unregistered intermediate provider.

The FCC adopted a Report and Order giving consumers and the Commission better access to information about the availability of hearing aid-compatible wireless handsets. The Report and Order required service providers to post on their web sites more up-to-date and accessible information about hearing aid-compatible wireless handsets and required all service providers to certify annually whether they are in compliance with FCC hearing aid-compatibility rules.

The FCC adopted new rules to improve Video Relay Service (VRS), which enables people with hearing and speech disabilities who use sign language to make telephone calls over broadband with a videophone. The new rules expand VRS users' access to direct video communications with people who know sign language by enabling direct video calling between VRS users and customer support call centers, without the need for an interpreter, and at no cost to the program. To protect against waste, fraud, and abuse in the TRS Fund, a fund that supports numerous relay services using contributions collected from telecom carriers and VoIP service providers, the Commission also required validation of each caller's registration via the TRS Numbering Directory querying system.

The FCC took steps to improve Internet-based relay services for people who are deaf or hard of hearing and communicate by speaking. The FCC approved new rules and proposed further regulations to enhance program management, prevent waste, fraud, and abuse, and improve emergency call handling in its Internet Protocol Captioned Telephone Service (IP CTS) program. IP CTS is a form of TRS that allows people with hearing loss to speak to friends, family members, or business associates by simultaneously reading captions and using their residual hearing to understand a telephone conversation. Support for this service is provided by the FCC through the TRS Fund.

REFORMING THE FCC'S PROCESSES

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's new Office of Economics and Analytics (OEA) officially opened. The OEA will help ensure that economic analysis is consistently incorporated as part of the agency's regular operations. The OEA brings into one office FCC economists, attorneys, and data professionals who work on economic analysis, data policy and management, and research. The OEA will provide economic analysis for rulemakings, transactions, adjudications, and other Commission actions and will manage the FCC's auctions program and significant FCC data collections.

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

The FCC continued its Modernization of Media Regulation Initiative, to reduce unnecessary regulation in the media marketplace by identifying rules that are outdated, unnecessary, or unduly burdensome. This effort included the following proceedings by the FCC:

- Adopted rules allowing cable operators to deliver general subscriber notices to their customers via email, reducing costs and paper waste for both cable operators and consumers. The Order also allows cable operators to respond to certain consumer requests and billing dispute complaints by email if the consumer used email to file the complaint or asked for a response via email. The Order ensured that electronic messages are sent only to verified email addresses and that subscribers can still opt for paper delivery at any time.
- Sought comment on whether the Commission should eliminate all existing rate regulation forms and create a simplified structure for ensuring reasonable basic service rates in the few localities that remain rate regulated. Alternatively, it sought comment on updating existing cable rate regulation rules. The FCC also adopted rules eliminating or revising rules that: have become obsolete due to the sunset of rate regulation for cable programming service tiers, are unnecessary given changes in industry practices, or have become obsolete.
- Proposed streamlining procedures for processing and licensing competing applications for new noncommercial educational (NCE) broadcast and low power FM (LPFM) stations. Mutually exclusive (MX) applications for new NCE and LPFM stations are currently resolved by applying comparative procedures that include a point system for selecting among MX applications.
- Commenced the 2018 Quadrennial Review of the Commission's media ownership rules, seeking comment on whether the Local Radio Ownership Rule, the Local Television Ownership Rule, and the Dual Network Rule continue to serve the public interest or whether they should be modified or eliminated in light of changes to the media marketplace. The Notice also sought comment on three proposals relevant to promoting diversity in the broadcast industry.
- Updated its carriage election notice rules. Under the new rules, broadcasters need only send carriage election notices to MVPDs when first electing carriage or changing their carriage election status from must carry to retransmission consent or vice versa. These notices will be sent by email and will be posted in a broadcaster's online public inspection file (OPIF). In the past, a broadcast station typically sent a paper notice via certified mail to MVPDs, including each individual cable system, every three years, regardless of whether its carriage election changed.
- Sought comment on whether satellite TV providers should be required to use email to deliver notices to broadcast TV stations. In addition, the FCC sought comment on whether and how the proposal to require electronic delivery of notices can be applied to certain low power TV and noncommercial translator stations that are not required to maintain an OPIF.
- Eliminated the Broadcast Mid-Term Report (Form 397) filing requirement, which the Commission used in its mid-term reviews of broadcasters' equal employment opportunity practices because the information collected is now available in broadcasters' online public inspection files.
- Eliminated two unnecessary rules pertaining to cable operators' channel lineups. First, the FCC eliminated a rule which required cable operators to maintain at their local office a current listing of the cable television channels that each cable system delivers to its subscribers. Second, the FCC eliminated the requirement that certain cable operators make their channel lineup available through their Commission-hosted OPIF. The Commission concluded that these requirements are unnecessary as channel lineups are readily available to consumers today through a variety of other means, including the websites of individual cable operators, third-party websites, on-screen electronic program guides, and paper guides.
- Eliminated the paper filing requirement for broadcast station contracts and certain other documents with the Commission. Broadcasters have the option of uploading these documents to their OPIF or maintaining these documents in their OPIF and providing copies to requesting parties within seven days.
- The FCC adopted rules streamlining the process for reauthorizing television satellite stations when they are assigned or transferred, if there has been no material change in the underlying circumstances supporting the satellite station's existing authorization. This process previously required the same evidentiary showing necessary for an initial authorization.

The FCC adopted its first Communications Marketplace Report, which provided a comprehensive evaluation of the state of the communications marketplace. As required by Title IV of RAY BAUM'S Act of 2018, the report consolidated or eliminated ten separate regularly recurring Commission reports and relevant data has now been consolidated into a single, comprehensive report which will be issued every two years.

The FCC adopted a Report and Order modernizing the procedures and rules governing direct broadcast satellite (DBS) service. These actions align DBS processing procedures with recently streamlined processing procedures for GSO fixed-satellite service (FSS) satellites and reflect changes in the regulation and provision of satellite communications services since the Commission last examined the licensing provisions for DBS over a decade ago.

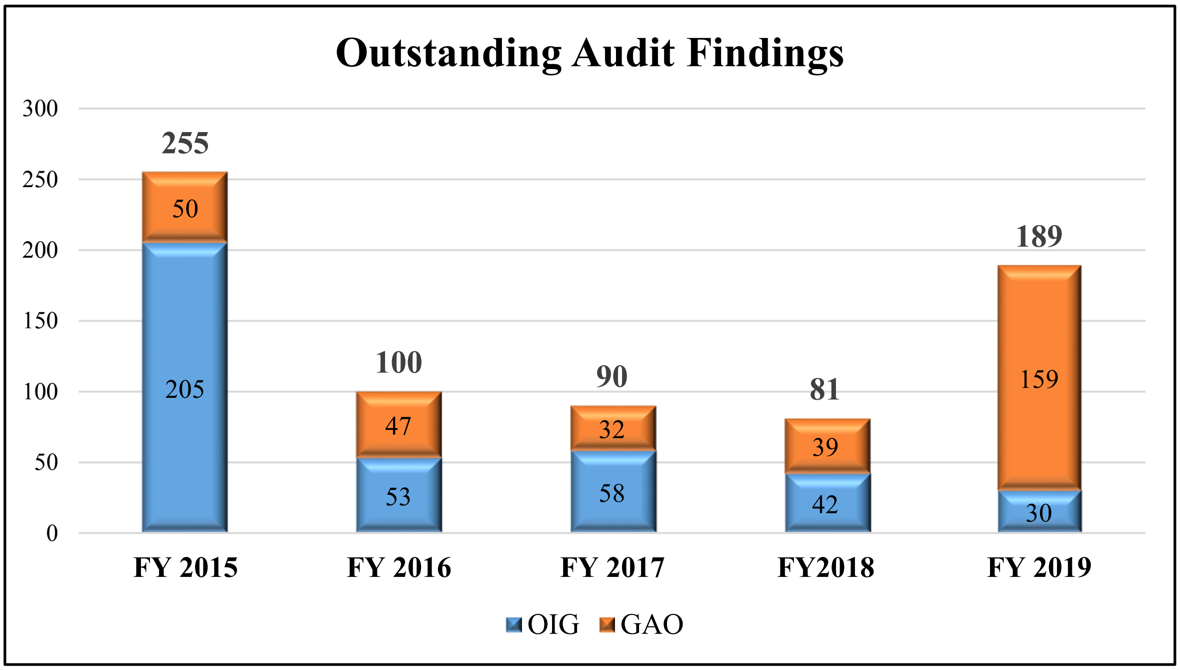
The FCC proposed making all filings to the Universal Licensing System (ULS) completely electronic; expanding electronic filing and correspondence elements for related systems; and requiring applicants to provide an e-mail address on the FCC Forms related to these systems. The FCC also sought comment on additional rule changes to further expand the use of electronic filing and electronic service. Together, these proposals will facilitate the remaining steps to transition these systems from paper to electronic, reducing regulatory burdens and environmental waste, and making interaction with these systems more accessible and efficient for those who rely on them.

The FCC officially moved its Equal Employment Opportunity (EEO) team from the Media Bureau to the Enforcement Bureau. The EEO team's work is primarily focused on periodic random audits of broadcast licensee and MVPD EEO programs, along with any necessary enforcement action arising from those audits. The team also investigates complaints and takes enforcement action based on those investigations when necessary. Transferring enforcement of these rules to the Enforcement Bureau will better ensure that the communications companies subject to these rules give all qualified individuals an opportunity to apply and be considered as job candidates.

The FCC established a Fraud Division within its Enforcement Bureau. The Fraud Division is dedicated to investigating and prosecuting fraud in the Universal Service Fund and works closely with the FCC's Office of Inspector General, the U.S. Department of Justice, and other law enforcement agencies to prosecute unlawful conduct.

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) as of September 30, 2019. The numbers shown below exclude those recommendations for which the Commission has already submitted information to GAO and OIG requesting closure of the recommendation. The count also excludes those recommendations that the Commission has determined to be closed as not implemented. In FY 2019, the Commission closed 72 outstanding recommendations, received 180 new recommendations, and finished the fiscal year with a total of 189 open recommendations. The majority of the 180 new recommendations were received just before the end of FY 2019, and since that time, the FCC has been actively working to close these recommendations as quickly as possible.



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.

The FY 2018 auditors' report identified a material weakness in Universal Service Fund Budgetary Accounting, and a significant deficiency in Information Technology controls at both the FCC and USAC. During FY 2019, the FCC worked to develop corrective action plans to remediate the recommendations associated with these findings. First, with regard to addressing the material weakness for Universal Service Fund Budgetary Accounting, the Commission made progress, but more work remains to correct this issue. Second, with respect to the significant deficiency related to Information Technology, the Commission has worked diligently in FY 2019 to develop corrective action plans to fully address the auditors' recommendations and remediate this finding. The Commission will make every effort in FY 2020 to implement corrective action plans for each of the recommendations associated with these findings to avoid any repeat findings in these areas.

Status of Internal Controls – Section 2 of FMFIA

During FY 2019, 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 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 and TRS. 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 and TRS, as well as functions related to auctions, contracts, financial operations, administrative operations, records management, human resources, and information technology. In FY 2019, the Senior Management Council (SMC) continued its oversight of the agency's entity and program level risk assessment through the Enterprise Risk Management

(ERM) process pursuant to OMB Circular A-123. The SMC includes representatives from across the FCC's Bureaus and Offices to more fully integrate the FCC's internal control assessment processes into the operations of the FCC's Bureaus and Offices while also identifying, monitoring, and mitigating risks throughout the year. While the Commission has received unmodified opinions over its consolidated financial statements for fourteen consecutive years, the Commission understands that maintaining proper internal controls requires continuous review of its internal controls and implementing improvements to them on an ongoing basis.

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 2019, the Commission's financial management systems were in compliance with government-wide requirements. The Commission continues to work with its reporting components on their 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, 2019.

Ajit Pai
Chairman
November 19, 2019

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 reports, and access controls. Genesis facilitates compliance with the Federal Managers' Financial Integrity Act (FMFIA), and the maintenance of an unmodified financial audit opinion. The Commission continues to optimize financial management system controls through ongoing continuous monitoring reviews, business process engineering initiatives and implementation of best practices, including the migration of the Genesis system to the Cloud environment in FY 2019.

The financial management system continues to support the accounting for the auctions program at the FCC, including the activities under the Spectrum Act, which provides for the reimbursement of relocation expenses for eligible entities. In support of those reimbursements, the financial operations team, in FY 2019, improved its payment support processes to be more efficient and to eliminate paper-based storage. The Commission Registration System (CORES) system allows reimbursement eligible entities to enter their payment banking information into CORES online and to view the entity's available balance for reimbursement along with the history of payments made to the entity.

The Genesis financial management system supports efficiency initiatives, including the newly implemented Invoice Processing Platform (IPP), which reduces the paper chain associated with the document review process and reduces, and/or eliminates, instances of duplicate data entry. Genesis also provides a web enabled self-service capability for the Bureaus and Offices to execute accounting functions, including business analytics for decision making. In addition, several financial legacy systems were decommissioned in FY 2019, decreasing operations and maintenance support costs. The results of these continued modernization initiatives have facilitated a continued reduction in contract support.

The FCC upgraded Genesis in FY 2019, continuing to maintain a steady state and to optimize Genesis system's features and functions, aligning financial system activities with the Commission's business management goals.

The Commission's financial management system strategy continues to build on processes that: improve internal controls; increase integration; implement tools that enhance budget formulation and performance; and improve financial coordination with our reporting components.

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 fourteen consecutive years, the financial statements have received an unmodified or clean audit opinion from the independent 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 Office of Management and Budget (OMB) Circular No. A-136*, Financial Reporting Requirements,* dated June 28, 2019.

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 2019 and FY 2018 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 2019 Consolidated (Dollars in Thousands)				
Net Financial Condition	**FY 2019**	**FY 2018**	**Increase (Decrease)**	**Percentage Change in Financial Position**
Intragovernmental				
Fund Balance with Treasury	$ 14,516,697	$ 11,097,827	$ 3,418,870	31%
Investments	307,899	2,886,961	(2,579,062)	-89%
Accounts Receivable	449	429	20	5%
Other	1,241	1,866	(625)	-33%
Total Intragovernmental	$ 14,826,286	$ 13,987,083	$ 839,203	6%
Cash and Other Monetary Assets	$ 5,437	$ 1,698	$ 3,739	220%
Accounts Receivable, net	893,321	783,380	109,941	14%
General Property & Equipment, net	72,138	78,013	(5,875)	-8%
Other	13,024	18,024	(5,000)	-28%
Total Assets	**$ 15,810,206**	**$ 14,868,198**	$ 942,008	6%
Intragovernmental				
Accounts Payable	$ 813	$ 3,186	$ (2,373)	-74%
Liability to the General Fund	3,381,997	3,511,422	(129,425)	-4%
Other	3,214	2,620	594	23%
Total Intragovernmental	$ 3,386,024	$ 3,517,228	$ (131,204)	-4%
Accounts Payable	$ 697,338	$ 551,499	$ 145,839	26%
Federal Employee and Veteran Benefits	3,118	2,984	134	4%
Deferred Revenue	2,767,977	1,205,713	1,562,264	130%
Prepaid Contributions	57,155	36,252	20,903	58%
Accrued Liabilities for Universal Service	489,926	524,358	(34,432)	-7%
Other	41,389	38,971	2,418	6%
Total Liabilities	**$ 7,442,927**	**$ 5,877,005**	$ 1,565,922	27%
Unexpended Appropriations - Funds from Dedicated Collections	$ 982,952	$ 600,000	$ 382,952	64%
Unexpended Appropriations - All Other Funds	2,816	2,816	-	-
Cumulative Results of Operations - Funds from Dedicated Collection	7,158,613	8,077,259	(918,646)	-11%
Cumulative Results of Operations - All Other Funds	222,898	311,118	(88,220)	-28%
Total Net Position - Funds from Dedicated Collections	8,141,565	8,677,259	(535,694)	-6%
Total Net Position - All Other Funds	225,714	313,934	(88,220)	-28%
Total Net Position	**$ 8,367,279**	**$ 8,991,193**	$ (623,914)	-7%
Total Liabilities and Net Position	**$ 15,810,206**	**$ 14,868,198**	$ 942,008	6%
Net Cost of Operations	**$ 10,708,932**	**$ 10,326,473**	$ 382,459	4%
Total Budgetary Resources	**$ 6,159,574**	**$ 5,741,165**	$ 418,409	7%

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.

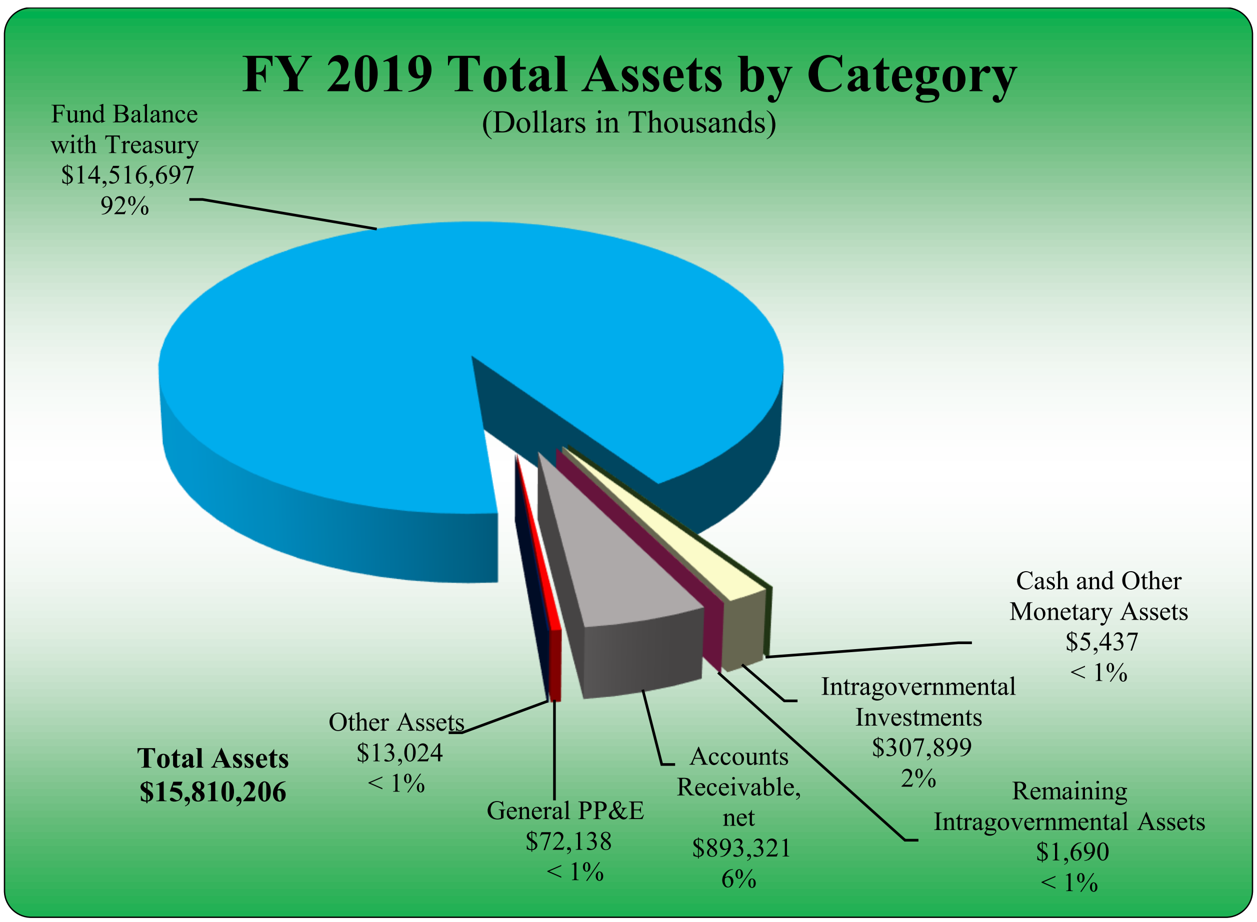
Consolidated Balance Sheet: The Consolidated Balance Sheet presents the total amounts available for use by the Commission (total assets) and the amounts owed by the Commission (total liabilities). Fund Balance with Treasury represents 92 percent of total assets as of September 30, 2019.

The pie chart below presents the total assets of the Commission as of September 30, 2019. The large Fund Balance with Treasury balance of $14,517 million is mainly due to results from the spectrum auctions and USF activities.

In FY 2019, USAC completed the transfer of USF funds held by a private banking institution to an account within Treasury.

The large Intragovernmental Investment balance of $308 million mainly results from funds for TRS support.

The Accounts Receivable balance of $893 million is primarily composed of USF receivables totaling $795 million.



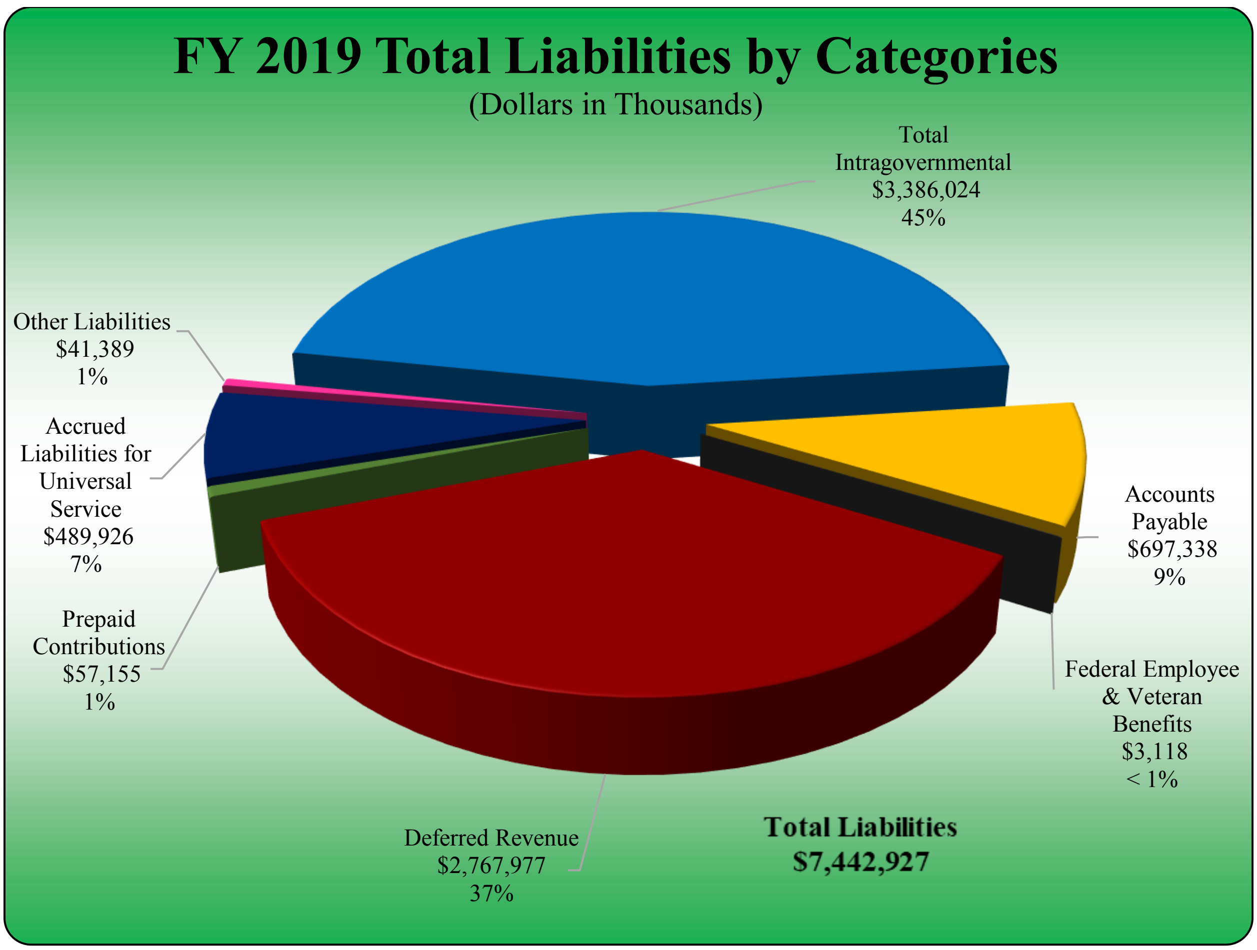
The pie chart below presents the total liabilities of the Commission as of September 30, 2019. The Commission's most significant liabilities are Total Intragovernmental of $3,386 million, and Deferred Revenue of $2,768 million which alone accounted for 83 percent of total liabilities as of September 30, 2019.

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 spectrum auction winning bids of licenses that have not been granted as of September 30, 2019.

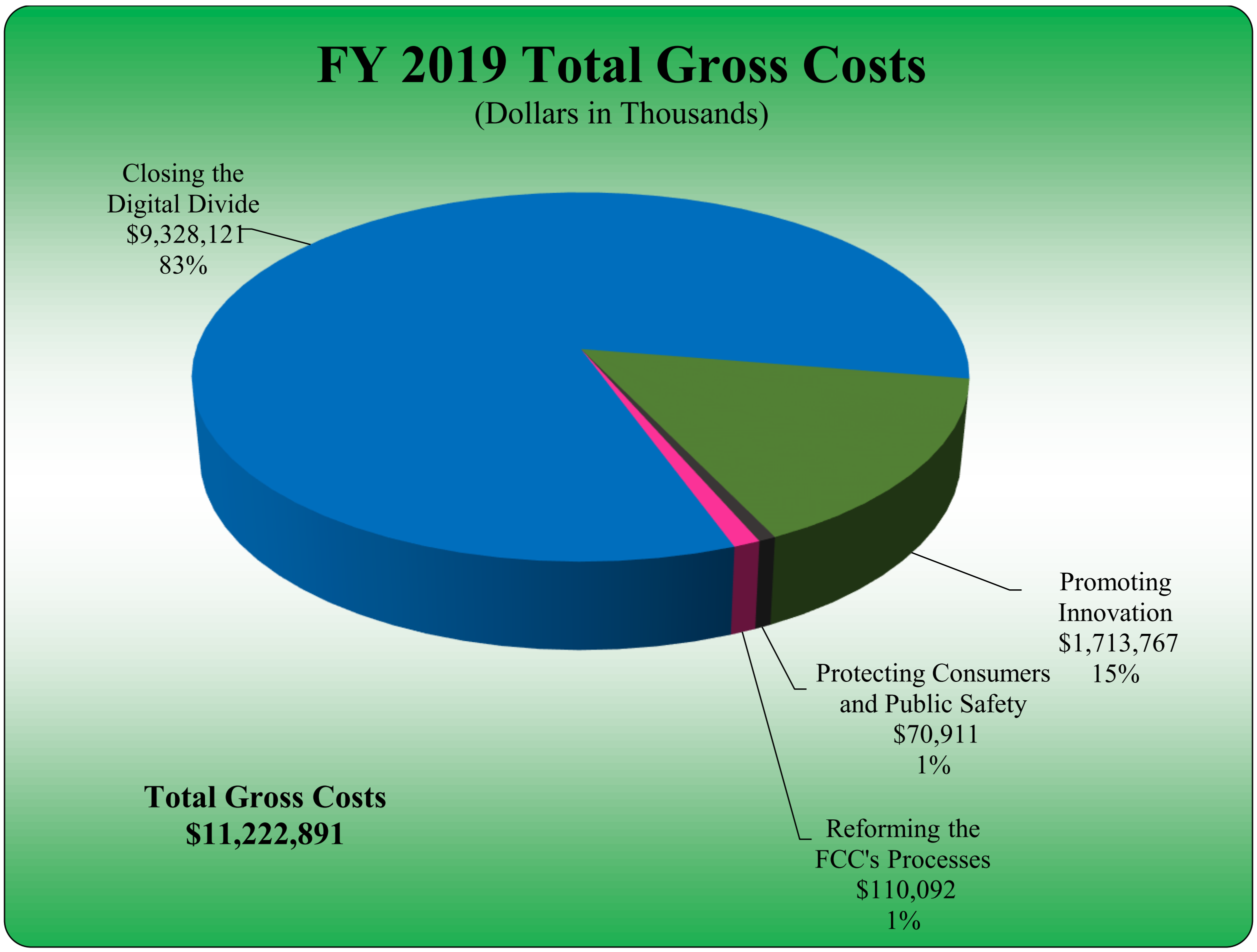
The Accounts Payable balance is primarily due to an increase in the expense accrual for the TV Broadcaster Relocation Fund and Connect America Fund (CAF) Alternative Cost Model (A-CAM) support.

The Accrued Liabilities for Universal Service represent the expected October (FY 2020) payments for the TRS and the USF's High Cost Legacy Support 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: Closing the Digital Divide; Promoting Innovation; Protecting Consumers and Public Safety; and Reforming the FCC's Processes. 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 Closing the Digital Divide and Promoting Innovation, and the program costs for the TRS are allocated to the strategic goal Closing the Digital Divide. Due to 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.

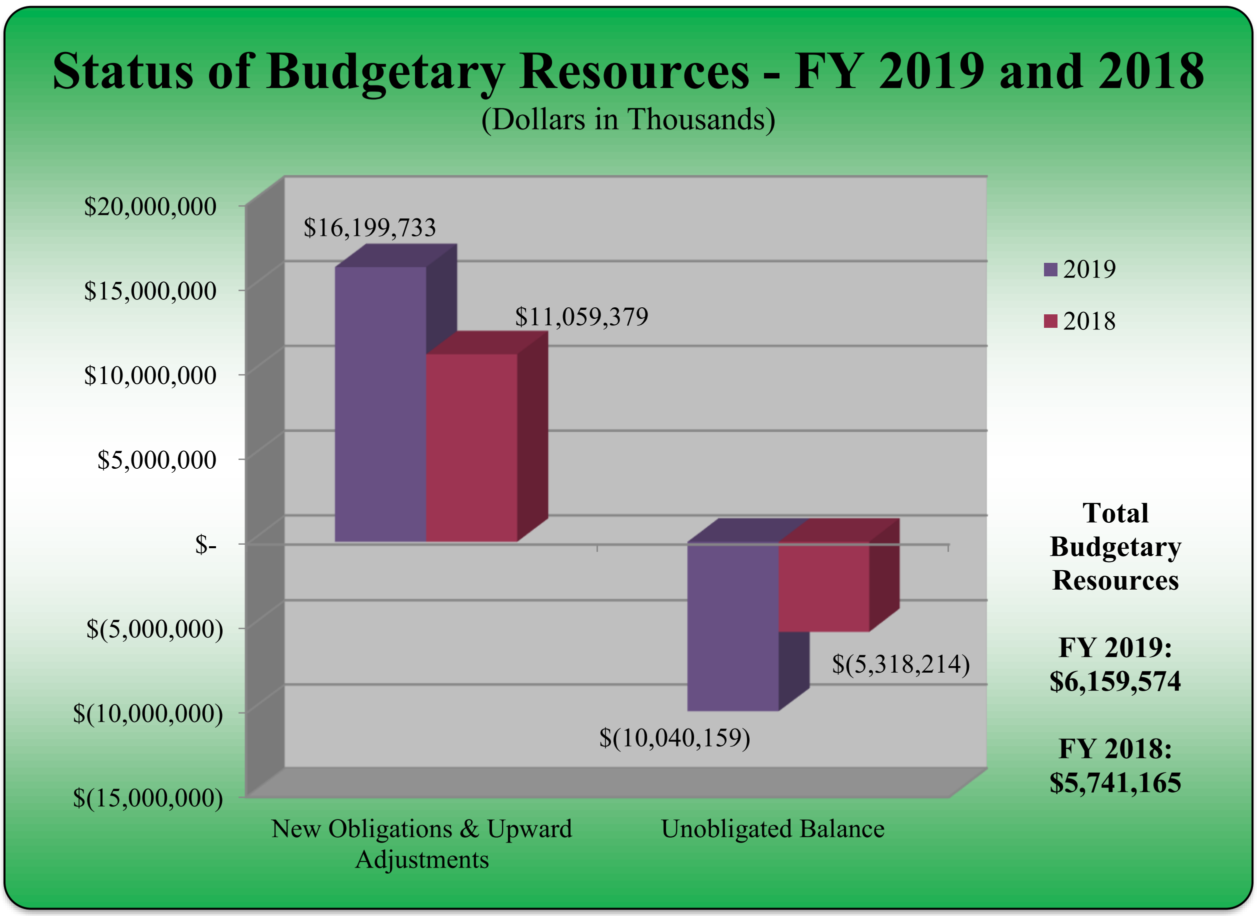
The pie chart below presents the total gross costs of each strategic goal.



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 2019, the Commission's Net Position decreased $624 million or 7 percent to $8,367 million compared to the net position of $8,991 million for FY 2018.

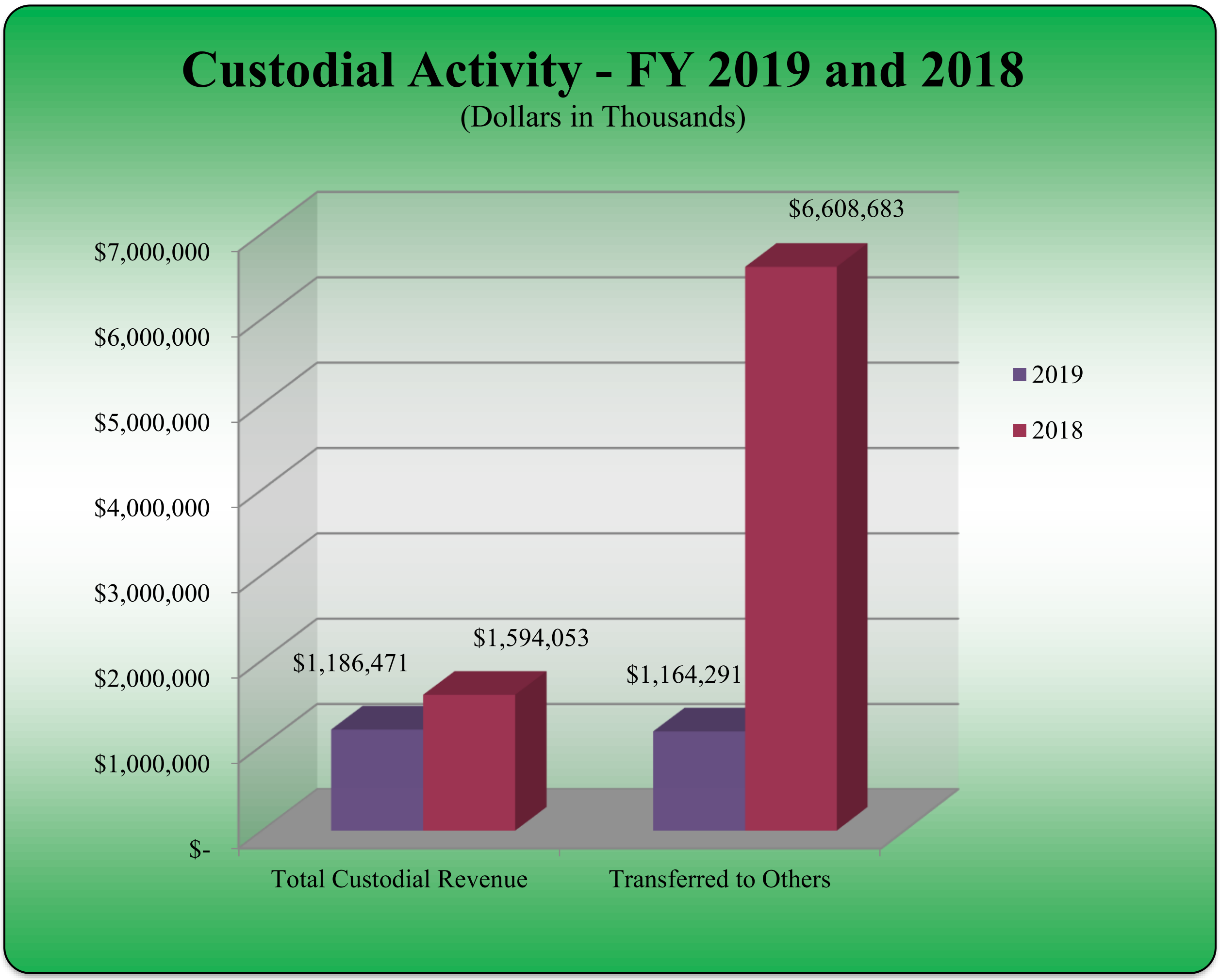
Combined Statement of Budgetary Resources: This statement provides information on how budgetary resources were made available to the Commission for the year and the status of those budgetary resources at the end of the year. The Commission receives most of its budgetary authority from appropriations. 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 $16,200 million in new obligations and upward adjustments, a $(10,040) million unobligated balance and $6,160 million in total budgetary resources. The abnormal balances in FY 2019 and FY 2018 are related to CAF Phase II Auction and A-CAM II obligations. These support mechanisms are part of the High Cost program under the USF, which are exempt from the Antideficiency Act through December 31, 2019.

The chart below presents the status of budgetary resources comparatively between FY 2019 and FY 2018.



<u>Consolidated Statement of Custodial Activity</u>: The Commission recognized $1,186 million of custodial revenue during FY 2019 and $1,594 million during FY 2018. In FY 2019, the Commission transferred earned revenues of $1,155 million from the Broadcast Incentive Auction (BIA) to the Public Safety Trust Fund managed by the National Telecommunication and Information Administration (NTIA), and $1 million from other spectrum auctions to the Treasury General Fund. In FY 2018, the Commission transferred FY 2017 and FY 2018 earned revenues of $5,895 million from the BIA to the Public Safety Trust Fund managed by the NTIA, and $1 million from other spectrum auctions to the Treasury General Fund.

The chart below compares the total amount of custodial revenue and amounts transferred to others between FY 2019 and FY 2018.



Other Key Financial Statement Highlights

Regulatory Fee Collections

Pursuant to 47 U.S.C. § 159, the Commission annually collects regulatory fees and retains them to offset certain costs incurred by the Commission. 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 2019, the Commission was required to collect $339 million in regulatory fees. Actual collections were $13.7 million above the required regulatory fee level. The RAY BAUM'S Act requires the Commission to transfer all excess regulatory fee collections to the General Fund of the Treasury for the sole purpose of deficit reduction.

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 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.

II. FINANCIAL STATEMENTS AND AUDITOR'S REPORT

Transmittal from Office of Inspector General

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 19, 2019

TO: Chairman

for RM, AIGA

FROM: Inspector General

SUBJECT: Audit of the Federal Communications Commission's Financial Statements for Fiscal Year 2019

As required by the Accountability of Tax Dollars Act of 2002 (Pub. L. 107-289), the Office of Inspector General (OIG) contracted with the independent certified public accounting firm of Kearney & Company, P.C. (Kearney) to audit, in accordance with generally accepted government auditing standards, the Federal Communications Commission's (FCC) fiscal year (FY) 2019 financial statements.

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

- The financial statements were fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles.
- There were two repeat internal control significant deficiencies. A Universal Service Fund (USF) budgetary accounting finding that was reported as a material weakness in FY 2018 was downgraded to a significant deficiency. Also, a significant deficiency was reported for FCC and USF information technology (IT) controls.
- There were no reportable instances of noncompliance.

Kearney made three recommendations to strengthen processes and internal controls related to USF budgetary accounting. Additionally, Kearney reported that 21 recommendations included in the Federal Information Security Management Act (FISMA) report are intended to improve the effectiveness of IT controls that impact FCC and USAC systems. The details of all IT findings and recommendations are included in the separate FISMA evaluation report.

In connection with the contract, we reviewed Kearney's reports and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to, and we do not express, opinions on the FCC's financial statements or internal control over financial reporting, or on compliance with laws and other matters. Kearney is wholly responsible for the attached auditor's report dated, November 19, 2019, and the conclusions expressed therein. However, our review disclosed no instances where Kearney did not comply, in all material respects, with government auditing standards.

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Federal Communications Commission (FCC), which comprise the consolidated balance sheet as of September 30, 2019 and 2018, the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statement of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, as well as the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the 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 in 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FCC as of September 30, 2019 and 2018, and its net cost of operations, changes in net position, custodial activities, and budgetary resources for the years 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 that the Management's Discussion and Analysis and Schedule of Budgetary Resources by Major Account (hereinafter referred to as the "required supplementary information") sections be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the 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 regarding the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the 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 financial statements taken as a whole. The information in the *Message from the Chairman* and the *Other Information* sections are presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03, we have also issued reports, dated November 19, 2019, on our consideration of FCC's internal control over

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financial reporting and on our tests of FCC's compliance with provisions of laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2019. 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 and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03, and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 19, 2019

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited, 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. 19-03, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the FCC's consolidated financial statements, and have issued our report thereon dated November 19, 2019.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. 19-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not

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identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, that we consider to be significant deficiencies.

FCC's Responses to Findings

FCC's response to the findings identified in our audit is included in the memorandum from management, entitled *Management's Response to Independent Auditor's Reports on Internal Control over Financial Reporting and Compliance with Laws, Regulations, Contracts, and Grant Agreements for Fiscal Year 2019*, included in FCC's Agency Financial Report. FCC's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control 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 *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity's internal control. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 19, 2019

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Schedule of Findings

Significant Deficiencies

I. USF Budgetary Resources Deficiencies

Background: Through the Universal Service Fund's (USF) Rural Health Care (RHC) program, the Federal Communications Commission (FCC) helps health care providers pay for telecommunications and internet services. The RHC program delivers support through three distinct programs: the Rural Health Care Telecommunication and Internet Access Program, the Healthcare Connect Fund Program, and the Rural Health Care Pilot Program. The Universal Service Administrative Company (USAC) administers the RHC program on behalf of FCC. Additionally, through the USF's Schools and Libraries (S&L) program, 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. USAC, with the assistance of a third-party service organization, administers the S&L program on behalf of FCC.

Eligible health care providers and schools, districts, and libraries apply to participate in the RHC and S&L programs, respectively. 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 applicants must submit invoices. When USAC issues an FCDL, accounting personnel record an obligation in USAC's accounting system and assign a Funding Request Number (FRN). As invoices are paid, USAC's accounting personnel reduce the obligated balance. S&L FRNs normally have an invoicing deadline either 120 days after the last day to receive services or 120 days after the Form 486 notification date, whichever is later. Applicants are able to request a one-time invoice deadline extension of 120 days on or before the initial invoicing deadline.

Under the S&L program, all applicants indicate a service organization when they submit the initial applications. USAC assigns a unique identifier to each service organization, which is the Service Provider Identification Number (SPIN). Applicants are able to change from the service organization initially indicated to another service organization no earlier than the date of the FCDL and no later than the last date to submit an invoice. There are three different types of SPIN changes: a Corrective SPIN change, an Operational SPIN change, and a Global SPIN change. A Corrective SPIN change occurs when the applicant or USAC makes a data entry error that results in incorrect SPIN information associated with an FRN. An Operational SPIN change occurs when an applicant requests a change to the current service organization associated with the FRN. Lastly, a Global SPIN change occurs when a larger company purchases a smaller company (or companies) and ultimately acquires the company's customers. For each of these types of SPIN changes, USAC changes the SPIN for each FRN affected to reflect the new SPIN.

S&L utilizes the E-Rate Productivity Center (EPC), an account and application management system, to track and manage applicant information. E-rate Program participants use EPC to submit documentation related to funding commitment adjustments, receive notifications, and contact customer service. In addition, S&L utilizes a legacy system to track and manage applicant information for older FRNs. USAC and its third-party service organization also use EPC and the legacy system to support their daily operations, including tracking appeals, SPIN changes, Revised Funding Commitment Decision Letters (RFCDL), and invoice deadline dates.

Under the RHC program, applicants can request to cancel program funding commitments. When an applicant requests a cancellation of funding, RHC program personnel review the cancellation request and process a de-obligation. At the end of each fiscal year (FY), RHC provides the USAC accounting team with a list of FRNs that are approved for cancellation that remained unprocessed. USAC accounting personnel record an accrual entry to account for the de-obligation of these FRNs and reverse the entry in the subsequent FY.

Condition: Based on a sample of 217 budgetary transactions[1] recorded as of June 30, 2019, USAC had the following deficiencies in internal controls supporting obligations or adjustments to obligations recorded in the prior year:

1. One of the samples selected was for a RHC FRN that was erroneously re-obligated and de-obligated due to an incorrect reversing entry. USAC accounting personnel recorded an entry to accrue an unprocessed cancellation requested by the applicant in FY 2018. At the beginning of FY 2019, the accrual entry automatically reversed and created a new obligation. Upon processing the cancellation in FY 2019, USAC recorded an entry to prior-year downward adjustments. Kearney & Company, P.C. (Kearney) obtained the FY 2018 accrual entry and found that USAC erroneously re-obligated and de-obligated 34 FRNs. *[Condition #1]*

2. One of the samples selected was for a S&L FRN that was incorrectly obligated. S&L inappropriately approved an appeal for an applicant that requested funding during FY 2000. S&L should not have obligated funding for this FRN. *[Condition #2]*

3. One of the samples selected was for an S&L FRN that was erroneously re-obligated due to a Global SPIN change. During this process, S&L changed the SPINs on expired FRNs that had previously been de-obligated. Kearney obtained a listing of all FRNs affected by this Global SPIN change and found that USAC erroneously re-obligated 23 FRNs. *[Condition #3]*

[1] The 217 budgetary transactions tested included normal balance United States Standard General Ledgers (USSGL) 4801, *Undelivered Orders*, *Obligations*, 4871 – *Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations*, and 4881, *Upward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations*.

4. One of the samples selected was for an S&L FRN that expired, resulting in a de-obligation of funding; however, the applicant requested an invoice deadline extension prior to the FRN's expiration. Kearney obtained a listing of all FRNs for which the applicant requested an invoice deadline extension, but S&L did not process the request timely. We found that USAC erroneously de-obligated and subsequently re-obligated 220 FRNs. *[Condition #4]*

5. One of the samples selected was for a Public Notice for which FCC ordered USAC to extend an FRN's service delivery deadline, ultimately extending its invoice deadline date. However, USAC did not update the invoice deadline timely, which resulted in an erroneous de-obligation and re-obligation of funding. *[Condition #5]*

6. One of the samples selected was for an S&L FRN that received an RFCDL, which extended the invoice deadline date. USAC was not timely in its update of the invoice deadline date for this FRN at the time of the RFCDL issuance date, resulting in an erroneous de-obligation and re-obligation of funding. *[Condition #6]*

7. One of the samples selected was for an S&L FRN where the applicant submitted an appeal to extend the months of service. Although USAC denied the appeal, during the appeal review process, the initial reviewer increased the FRN's months of service. Once the denied appeal was processed, the increase in months of service resulted in an erroneous upward adjustment to funding. *[Condition #7]*

Cause: USAC accounting did not have proper controls in place to ensure the accuracy of reversing entries recorded for RHC funding cancellations. *[Condition #1]*

The S&L program office did not have adequate procedures to ensure FRNs processed in its legacy system were accurate. The legacy system did not perform the same validation checks, nor did it require the same level of review as EPC. *[Condition #2]*

USAC did not have proper controls in place to ensure the accuracy of changes made to each FRN affected by Global SPIN changes. *[Condition #3]*

S&L's processes are not in line with accounting standards cited in OMB Circular A-11. S&L's process is to update FRNs within 90 days of the issuance of a Public Notice, regardless of the impact the delay causes. *[Condition #5]*

USAC's previous process, which S&L updated as of July 26, 2019, for modifying invoice deadline dates involved submitting JIRA tickets to the Information Technology (IT) department to perform updates. This previous process caused delays in processing of invoice deadline extensions simultaneously with the RFCDLs. *[Condition #6]*

USAC did not have effective lines of communication in place to ensure accounting personnel were aware of invoice deadline extensions granted by the program offices after the invoicing deadline expired. *[Conditions #3, #4, #5, and #6]*

USAC did not have adequate controls in place to ensure the S&L reviewers appropriately updated FRN details in accordance with the final appeal decision. *[Condition #7]*

Effect: USAC's control deficiencies resulted in known errors that overstated FY 2019 *Undelivered Orders – Obligations Unpaid* by $35.2 million, *Downward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations* by $12.5 million, *Upward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations* by $1.7 million, and understated *Apportionments* by $24.4 million. Without improved processes and internal controls, additional errors in USAC's budgetary accounts are likely to continue.

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

1. Ensure policies and procedures adequately address recording obligations and de-obligations in accordance with program rules and Government accounting standards, such as A-11. *[Conditions #1, #2, #3, #4, #5, #6, and #7 – Repeat]*

2. Require experienced personnel to perform additional quality control reviews for high-dollar FRNs processed in the legacy system. *[Condition #2 – New]*

3. Enhance the lines of communication between the accounting personnel and the program offices, to include formal and detailed communication of operational and application issues as they arise. *[Conditions #3, #4, #5, and #6 – Repeat]*

II. Information Technology

Background: FCC uses information systems to compile information for financial reporting purposes, including FCC's core financial management and accounting system, Genesis. FCC's general IT support system serves as the gateway for users to access FCC information and information systems, including Genesis. In addition, because FCC's financial statements include financial transactions relating to the USF programs, FCC relies upon general IT support systems and specific applications utilized by the administrator of the USF programs (i.e., USAC).

Kearney separately performed an evaluation of FCC's Information Security Program, as required by the Federal Information System Modernization Act of 2014 (FISMA), and issued a separate report. In addition to the work performed during our FISMA evaluation, we performed risk-based procedures focused on IT controls that could lead to significant misstatements of, or corruption to, the financial data needed for FCC's consolidated financial statements. We performed this work in accordance with the Government Accountability Office's (GAO) Federal Information System Controls Audit Manual (FISCAM). Many of the IT control areas of FISMA overlap with those in FISCAM, such as Risk Management, Access Controls, Configuration Management, and Contingency Planning. Other IT controls 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. Additionally, we performed risk-based procedures related to the core financial management system utilized by USAC to administer the USF programs, the Financial Operations System/Great Plains (FOS/GP), as well as USAC's S&L account and application management system, EPC. The FY 2019 FISMA evaluation report includes detailed information for each identified finding.

Condition: The following summarizes the IT control deficiencies noted during the FISMA evaluation and FISCAM testing in support of the financial statement audit. In aggregate, Kearney considers these control deficiencies to be a significant deficiency.

- **FCC General IT Support System** – The FY 2019 FCC FISMA evaluation identified deficiencies in multiple IT control areas that impacted the FCC's general IT support system, including Identity and Access Management and Information Security Continuous Monitoring (ISCM). Most notably, FCC did not enforce the use of Personal Identity Verification (PIV) credentials as a dual-factor authentication mechanism for logical access, and FCC did not consistently remediate identified network vulnerabilities within the timeframes required by FCC policy.

- **Genesis** – FCC utilizes an external service organization to provide hosting services for Genesis. While the service organization is responsible for maintaining a number of IT controls, the FCC's general IT support system serves as the gateway for users to access Genesis. Therefore, IT deficiencies noted in the general IT support system, as described above, may impact Genesis as well. Further, we noted additional control deficiencies impacting Genesis beyond those inherited from FCC's general IT support system. Specifically, FCC did not maintain sufficient documentation to support that appropriate personnel (i.e., users' supervisors and application administrators) reviewed and approved the level of access assigned to Genesis user accounts created in FY 2019.

- **USAC Systems Utilized in Administering the USF Programs** – Similar to FCC, USAC's general IT support system is the gateway for users to access USAC's FOS/GP. USAC failed to properly manage user accounts with access to both the general IT support system and FOS/GP. Further, USAC failed to implement proper segregation of duties within EPC and did not effectively monitor IT controls maintained by an external service organization providing hosting services for EPC.

In general, FCC did not implement effective policies, procedures, and controls over its general IT support system and Genesis. Additionally, USAC did not implement effective security and account management policies, procedures, and processes over its general IT support system, FOS/GP, and EPC.

Cause: FCC's ongoing efforts to implement planned corrective actions, remediate longstanding IT deficiencies in its IT general support system, modernize legacy technologies, and fully implement all documented information security policies, procedures, and processes continue to require significant resources. Additionally, USAC's efforts, under FCC oversight, to remediate deficiencies in systems utilized in administering the USF programs remained incomplete due primarily to prioritization, timing, and resource constraints.

Effect: Inadequate controls over IT security can affect the integrity of financial applications, which increases the risk that unauthorized individuals could access sensitive financial information or that financial transactions could be altered, either accidentally or intentionally. IT deficiencies increase the risk that FCC will be unable to report financial data in an accurate and timely manner.

Recommendations: Our full FY 2019 FISMA evaluation report included 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, Data Protection and Privacy, ISCM, and Incident Response. Fourteen of the recommendations related to FCC and 10 of the recommendations related to USAC. Of the 14 FCC recommendations, 11 related to FISCAM control areas. All 10 of the USAC recommendations related to FISCAM control areas.

Appendix A: Status of Prior-Year Findings and Recommendations

In the *Independent Auditor's Report on Internal Control Over Financial Reporting*, included in the audit report on the Federal Communications Commission's (FCC) fiscal year (FY) 2018 financial statements,[2] Kearney & Company, P.C. (Kearney) noted two issues that were related to internal control over financial reporting. The status of the FY 2018 internal control findings is summarized in ***Exhibit 1***.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2018 Status	FY 2019 Status
Universal Service Fund (USF) Budgetary Accounting	Material Weakness	Significant Deficiency
Information Technology (IT)	Significant Deficiency	Significant Deficiency

During the FY 2018 financial statement audit, Kearney made specific recommendations to FCC related to the control deficiencies noted above to strengthen FCC's internal control environment over financial reporting. The status of the FY 2018 internal control recommendations is summarized in ***Exhibit 2***.

Exhibit 2: Status of Prior-Year Recommendations

Related Control Deficiency	Recommendation Description	FY 2019 Status
USF Budgetary Accounting	Policies and procedures for recording de-obligations	Open
	Test scenarios for Universal Service Administrative Company (USAC) business rules in E-Rate Productivity Center (EPC)	Closed
	Quality control reviews for proper recording of de-obligations in the appropriate FY	Closed
	Lines of communication between Accounting personnel and the program offices	Open
	Quantify the materiality of pending cancellations that could cross FYs	Closed
	Policies and procedures to monitor pending cancellation balances and establish accrual thresholds	Closed

[2] The *Independent Auditor's Report on Internal Control Over Financial Reporting* was published in FCC's FY 2018 Agency Financial Report.

Related Control Deficiency	Recommendation Description	FY 2019 Status
IT[3]	Kearney issued 19 IT-related recommendations in FY 2018	15 Open 4 Closed

[3] Kearney issued 19 recommendations in the FY 2018 FISMA evaluation report. During FY 2019, FCC took appropriate action to close four recommendations, and we either updated or re-issued the 15 recommendations that remain open. The FY 2019 FISMA evaluation report includes additional, detailed information on each of the 19 prior-year recommendations.

Independent Auditor's Report on Compliance with Laws, Regulations, and Contracts

KEARNEY& COMPANY

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

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

We have audited, 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. 19-03, *Audit Requirements for Federal Financial Statements*, the consolidated financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the FCC's consolidated financial statements, and we have issued our report thereon dated November 19, 2019.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FCC's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements with which could have a direct and material effect on the determinations of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements 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. 19-03. Although our audit procedures did not identify any instances of known noncompliance in fiscal year (FY) 2019, FCC management communicated potential instances of noncompliance with the Antideficiency Act[1] based on events that occurred in FY 2011 and FY 2019. These potential instances of noncompliance were still being researched by FCC as of September 30, 2019.

[1] The Antideficiency Act prohibits the FCC from obligating or expending Federal funds in advance or in excess of an appropriation, as well as from accepting voluntary services.

KEARNEY&
COMPANY

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 *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering FCC's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 19, 2019

Commission's Response to Independent Auditor's Reports

UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSON

Office of the Managing Director

DATE: November 19, 2019

TO: David L. Hunt, Inspector General

FROM: Mark Stephens, Managing Director
Jae Seong, Chief Financial Officer
John Skudlarek, Acting Chief Information Officer

SUBJECT: Management's Response to Independent Auditor's Reports on Internal Control over Financial Reporting and Compliance with Laws, Regulations, Contracts, and Grant Agreements for Fiscal Year 2019

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 Laws, Regulations, Contracts, and Grant Agreements*. 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 fourteenth straight year, the independent auditor provided an unmodified ("clean") opinion and found that the Commission's consolidated financial statements for Fiscal Year (FY) 2019 present fairly, in all material respects, the financial position of the Commission as of September 30, 2019. In addition, the results of the audit tests disclosed no instances of noncompliance or other matters that are required to be reported.

Despite this successful outcome, work remains here at the Commission. The FY 2019 audit report identified two significant deficiencies - one related to Universal Service Fund budgetary resources deficiencies and another related to information technology controls. We concur with the recommendations made by the independent auditors in their reports.

We look forward to working in FY 2020 to resolve the FY 2019 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

Mark Stephens	Jae Seong	John Skudlarek
Managing Director	Chief Financial Officer	Acting Chief Information Officer
Office of Managing Director	Office of Managing Director	Office of Managing Director

Principal Statements

Federal Communications Commission
Consolidated Balance Sheets
As of September 30, 2019 and 2018
(Dollars in thousands)

	FY 2019	FY 2018
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 14,516,697	$ 11,097,827
Investments (Note 5)	307,899	2,886,961
Accounts receivable (Note 6)	449	429
Other	1,241	1,866
Total intragovernmental	14,826,286	13,987,083
Cash and other monetary assets (Note 4)	5,437	1,698
Accounts receivable, net (Note 6)	893,321	783,380
General property, plant, and equipment, net	72,138	78,013
Other	13,024	18,024
Total assets	$ 15,810,206	$ 14,868,198
Liabilities (Note 7):		
Intragovernmental:		
Accounts payable	$ 813	$ 3,186
Other (Note 8)		
Liability to the General Fund and Other Non-Entity Assets	3,381,997	3,511,422
Other	3,214	2,620
Total other	3,385,211	3,514,042
Total intragovernmental	3,386,024	3,517,228
Accounts payable	697,338	551,499
Federal employee and veteran benefits	3,118	2,984
Other (Note 8)		
Deferred revenue	2,767,977	1,205,713
Prepaid contributions	57,155	36,252
Accrued liabilities for Universal Service	489,926	524,358
Other	41,389	38,971
Total other	3,356,447	1,805,294
Total liabilities	$ 7,442,927	$ 5,877,005
Commitments and contingencies (Note 9)		
Net position:		
Unexpended appropriations - Funds from dedicated collections (Note 10)	$ 982,952	$ 600,000
Unexpended appropriations - All other funds	2,816	2,816
Cumulative results of operations - Funds from dedicated collections (Note 10)	7,158,613	8,077,259
Cumulative results of operations - All other funds	222,898	311,118
Total net position - Funds from dedicated collections (Note 10)	8,141,565	8,677,259
Total net position - All other funds	225,714	313,934
Total net position	8,367,279	8,991,193
Total liabilities and net position	$ 15,810,206	$ 14,868,198

The accompanying notes are an integral part of these statements.

Federal Communications Commission
Consolidated Statements of Net Cost
For the Years Ended September 30, 2019 and 2018
(Dollars in thousands)

	FY 2019	FY 2018
Gross Program costs:		
Closing the Digital Divide		
Total Gross Cost	$ 9,328,121	$ 8,809,668
Promoting Innovation		
Total Gross Cost	1,713,767	1,827,302
Protecting Consumers and Public Safety		
Total Gross Cost	70,911	65,832
Reforming the FCC's Processes		
Total Gross Cost	110,092	95,934
Total Program Costs	$ 11,222,891	$ 10,798,736
Less: earned revenues not attributed to programs	(513,959)	(472,263)
Net cost of operations	$ 10,708,932	$ 10,326,473

The accompanying notes are an integral part of these statements

Federal Communications Commission
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2019 and 2018
(Dollars in thousands)

	FY 2019			FY 2018		
	Funds from Dedicated Collections (Note 10)	All Other Funds	Consolidated Total	Funds from Dedicated Collections (Note 10)	All Other Funds	Consolidated Total
Unexpended Appropriations:						
Beginning Balance, as adjusted	$ 600,000	$ 2,816	$ 602,816	$ -	$ 2,820	$ 2,820
Budgetary Financing Sources:						
Appropriations received	400,000	-	400,000	600,000	-	600,000
Appropriations used	(17,048)	-	(17,048)	-	(4)	(4)
Total Budgetary Financing Sources	382,952	-	382,952	600,000	(4)	599,996
Total Unexpended Appropriations	$ 982,952	$ 2,816	$ 985,768	$ 600,000	$ 2,816	$ 602,816
Cumulative Results from Operations:						
Beginning Balance, as adjusted	$ 8,077,259	$ 311,118	$ 8,388,377	$ 8,907,714	$ 277,664	$ 9,185,378
Budgetary Financing Sources:						
Appropriations used	17,048	-	17,048	-	4	4
Nonexchange revenue	9,829,226	-	9,829,226	9,543,325	-	9,543,325
Transfers in/out without reimbursement	-	(134,959)	(134,959)	-	-	-
Other	-	-	-	(6)	-	(6)
Other Financing Sources (Nonexchange):						
Transfers in/out without reimbursement	-	134,959	134,959			-
Imputed financing	-	13,345	13,345	-	13,691	13,691
Other	-	(157,553)	(157,553)	-	(27,542)	(27,542)
Total Financing Sources	9,846,274	(144,208)	9,702,066	9,543,319	(13,847)	9,529,472
Net Cost of Operations	10,764,920	(55,988)	10,708,932	10,373,774	(47,301)	10,326,473
Net Change	(918,646)	(88,220)	(1,006,866)	(830,455)	33,454	(797,001)
Cumulative Results of Operations	7,158,613	222,898	7,381,511	8,077,259	311,118	8,388,377
Net Position	$ 8,141,565	$ 225,714	$ 8,367,279	$ 8,677,259	$ 313,934	$ 8,991,193

The accompanying notes are an integral part of these statements.

Federal Communications Commission
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2019 and 2018
(Dollars in thousands)

	FY 2019	FY 2018
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ (4,467,012)	$ (4,869,982)
Appropriations (discretionary and mandatory)	10,156,114	10,177,230
Spending authority from offsetting collections (discretionary and mandatory)	470,472	433,917
Total budgetary resources	$ 6,159,574	$ 5,741,165
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 16,199,733	$ 11,059,379
Unobligated balance, end of year:		
Apportioned, unexpired accounts	1,304,725	883,329
Exempt from apportionment, unexpired accounts (Note 1 A)	(11,374,243)	(6,209,089)
Unapportioned, unexpired account	29,117	7,091
Unexpired unobligated balance, end of year	(10,040,401)	(5,318,669)
Expired unobligated balance, end of year	242	455
Unobligated balance, end of year (total)	(10,040,159)	(5,318,214)
Total status of budgetary resources	$ 6,159,574	$ 5,741,165
Outlays, Net:		
Outlays, net (total) (discretionary and mandatory)	10,582,524	10,047,317
Distributed offsetting receipts (-)	(55,388)	(93,049)
Agency outlays, net (discretionary and mandatory)	$ 10,527,136	$ 9,954,268

The accompanying notes are an integral part of these statements.

Federal Communications Commission
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2019 and 2018
(Dollars in thousands)

	FY 2019	FY 2018
Total Custodial Revenue:		
Sources of Cash Collections:		
Spectrum Auctions	$ 1,156,980	$ 895,646
Fines and Penalties	7,746	712,281
Total Cash Collections	1,164,726	1,607,927
Accrual Adjustments (+/-)		
Spectrum Auctions	21,321	-
Fines and Penalties	424	(13,874)
Total Accrual Adjustments	21,745	(13,874)
Total Custodial Revenue (Note 16)	1,186,471	1,594,053
Disposition of Collections:		
Transferred to Others:		
U.S. Treasury	(9,040)	(713,525)
Public Safety Trust Fund (NTIA)	(1,155,251)	(5,895,158)
(Increase)/Decrease in Amounts Yet to be Transferred (+/-)	129,425	5,125,780
Refunds and Other Payments		
Auctions Salaries & Expenses (FCC) (Note 13)	(130,284)	(111,150)
Reverse Incentive Auction Winners	(21,321)	-
Total Disposition of Collections	(1,186,471)	(1,594,053)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

For the Years Ended September 30, 2019 and 2018
(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. The Commission is directed by five Commissioners who 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 two reporting components. The primary component consists of Commission headquarters and field offices. The additional component is the Universal Service Fund (USF). The USF reports the results of the four Universal Service programs (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). Section 201 of Division P of the Consolidated Appropriations Act, 2018, P.L. 115–141, amended Section 302 of the Universal Service Antideficiency Temporary Suspension Act, Title III of P.L. 108-494, to extend the four Universal Service programs exemption from the application of the provisions of the Antideficiency Act until December 31, 2019. Accordingly, USF is 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. Information regarding disclosure entities is separately disclosed in Note 18.

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.

C. Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Note 1 – Summary of Significant Accounting Policies (continued)

D. 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.

E. Cash and Other Monetary Assets

Cash and Other Monetary Assets represent third party deposits and demand deposits which are held at a commercial bank and maintained by Rolka Loube, LLC (RL), who serves as the administrator for the TRS fund. Demand deposits bear the name of the entity, as well as the Commission or the TRS Fund. For more information, refer to Note 4.

F. 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.

G. 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. As such, an additional allowance for doubtful accounts for the higher dollar value receivables may be recorded considering inherent uncertainties and risks.

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.

H. 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)

H. General Property, Plant and Equipment, Net (continued)

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

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

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

Leasehold and building 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 and building or the useful life of the improvement, whichever is shorter.

I. 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.

J. 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. Payments of all liabilities other than contracts can be abrogated by the U.S. Government, which is a sovereign entity, and its components, which includes the Commission. The USF expenses are non-exchange expenses. Accrued Liabilities for USF mostly represent liabilities recorded for anticipated subsidies in the Lifeline program, and for certain support mechanisms within the High Cost program and TRS Fund. The obligations are recognized for subsidies related to certain USF support mechanisms and a TRS program that includes: Mobility Fund Phase I, Connect America Fund (CAF) Phase II, CAF Phase II reverse auction (CAF II Auction), Rural Broadband Experiment, Alternative Connected America Model (A-CAM), A-CAM II, Alaska Plan, and TRS's National Deaf-Blind Equipment Distribution Program. For these USF support mechanisms and TRS program, 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.

Note 1 – Summary of Significant Accounting Policies (continued)

J. Accounts Payable and Accrued Liabilities (continued)

Accrued Liabilities for the TV Broadcaster Relocation Fund (TVBRF) represent liabilities for invoices received but not processed and for costs incurred but not invoiced related to relocation costs incurred by full power and Class A broadcasters that were reassigned to new channels as a result of the Broadcast Incentive Auction, as well as certain costs incurred by multichannel video program distributors (MVPDs) to continue to carry such stations signals. For this program, an accrued liability for invoices received but not processed and for costs incurred but not invoiced is made to Accounts Payable.

K. Deferred Revenue

The Commission collects proceeds from the sale of spectrum licenses on behalf of the U.S. Government. All proceeds collected up to the amount of the net winning bid are recognized as deferred revenue until a "prepared to grant" or "grant" public notice is issued.

In addition, the Commission collects multi-year regulatory fees for five and ten-year periods that are recorded as deferred revenue and amortized over the period of the fee.

The USF collects contributions from telecommunications 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.

L. Retirement Plans and Other Benefits

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

Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other separations from employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most Commission employees participate in the Civil Service Retirement System (CSRS), the Federal Employee Retirement System (FERS), the FERS-Revised Annuity Employee (FERS-RAE), or the FERS-Further Revised Annuity Employee (FERS-FRAE). Under CSRS, the Commission makes matching contributions equal to seven percent (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 one percent (1%) of gross pay, match dollar-for-dollar on the first three percent (3%) of pay contributed each pay period, and match 50 cents on the dollar for the next two percent (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.

Note 1 – Summary of Significant Accounting Policies (continued)

L. Retirement Plans and Other Benefits (continued)

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.

M. 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.

N. Exchange Revenue and Financing Sources

Regulatory Fee Offsetting Collections (Exchange) – Pursuant to 47 U.S.C. § 159, the Commission assesses and collects regulatory fees to recover the costs incurred in carrying out its mission through its strategic goals: Closing the Digital Divide; Promoting Innovation; Protecting Consumers and Public Safety; and Reforming the FCC's Processes. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected in annual Appropriations Acts. Fees collected up to the level established by Congress are applied against the Commission's appropriation at the close of each fiscal year. The Commission collected the appropriated regulatory fee levels of $339,000 for FY 2019 and $322,035 for FY 2018. The Commission also collected $13,732 above the required regulatory level in FY 2019 and $9,233 above the required level in FY 2018. Starting in FY 2019, the Repack Airwaves Yielding Better Access for Users of Modern Services Act of 2018 (RAY BAUM'S Act), Division P of P.L. 115-141, requires the Commission to transfer all excess regulatory fee collections from prior and subsequent fiscal years to the General Fund of the Treasury for the sole purpose of deficit reduction. As of September 30, 2019, the Commission transferred excess regulatory fees collected totaling $134,959 to the Treasury.

Competitive Bidding System Offsetting Collections (Exchange) – One of the Commission's primary functions is managing the spectrum auctions program. Proceeds from the auctions are initially remitted to the Commission and are later transferred either to the Treasury or to the appropriate agency as required by applicable laws. Pursuant to 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 $130,284 for FY 2019 and $111,150 for FY 2018.

Note 1 – Summary of Significant Accounting Policies (continued)

N. Exchange Revenue and Financing Sources (continued)

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 $1,178,301 of custodial revenue (net of accrual adjustments) related to spectrum auctions in FY 2019 and $895,646 in FY 2018. In FY 2019, the Commission transferred $1,155,251 of custodial revenue from the Broadcast Incentive Auction (BIA) to the Public Safety Trust Fund that is managed by the National Telecommunications and Information Administration (NTIA), and $1,295 from other spectrum auctions to the Treasury General Fund. In FY 2018, the Commission transferred $5,895,158 of custodial revenue from the BIA to the Public Safety Trust Fund, and $1,244 from other spectrum auctions to the Treasury General Fund.

Application Fees (Exchange) – Pursuant to 47 U.S.C. § 158, the Commission collects application processing fees at such rates as the Commission establishes in a schedule of application fees to recover the costs of the Commission to process applications. Subparagraph b of section 158 requires the Commission to review and amend its schedule of application fees every two years based on the net change in the Consumer Price Index 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 $22,594 in FY 2019 and $27,542 in FY 2018. The RAY BAUM'S Act amended 47 U.S.C. § 158 with an effective date of October 1, 2018. Congress provided that application fees in effect before the effective date October 1, 2018 shall remain in effect until the Commission adjusts or amends such fees. The Commission's next amendment of the schedule of application fees will occur in calendar year 2020 and be based on recently updated requirements in 47 U.S.C. § 158.

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 $856 in FY 2019 and $841 in FY 2018.

Allocation of Exchange Revenues – The Commission reports the entire balance of exchange revenue on the 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 $9,797,201 and $9,476,789 were received in FY 2019 and FY 2018, 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 has authorized the Commission to retain its appropriation as available until expended. The Commission's no-year appropriations were $339,000 for FY 2019 and $322,035 for FY 2018. Regulatory fee collections fully funded the no-year appropriations for FY 2019 and FY 2018.

Note 1 – Summary of Significant Accounting Policies (continued)

N. Exchange Revenue and Financing Sources (continued)

Subsidy Estimates and Re-estimates (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 re-estimates. The last active loan matured in April 2007, and the Commission wrote off all remaining loans in FY 2013. As a result, no material activity related to direct loans has occurred in FY 2019 and FY 2018, and the Commission is working with OMB to close-out the Credit Reform Program. The most recent subsidy re-estimate was completed in September 30, 2015; OMB waived the requirement to perform a subsidy re-estimate in FY 2019 and FY 2018.

O. Reprogramming

For the year ended September 30, 2019, the Commission did not request any reprogramming of prior year de-obligated funds. In FY 2018, $6,082 of prior year de-obligated funds were approved for reprogramming. The funds were requested to address a shortage in compensation and benefits as well as to provide necessary funding for information technology and security projects.

P. Net Position

Net Position is the residual difference between assets and liabilities and is comprised of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations represents the amount of unobligated and unexpended budget authority. Unobligated Balance is the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. Cumulative Results of Operations is the net difference since the inception of the Commission of (1) expenses and losses and (2) financing sources including appropriations used, revenues, and gains. Net position of funds from dedicated collections is separately disclosed in Note 10.

Q. Broadcast Incentive Auction

The Broadcast Incentive Auction (BIA) was authorized by provisions in Title VI of the Middle Class Tax Relief and Job Creation Act of 2012, P.L. 112-96 (Spectrum Act). The Spectrum Act established the funding of the TVBRF at $1,750,000. The Spectrum Act requires the Commission to reimburse relocation costs reasonably incurred by full power and Class A broadcasters and MVPDs that were involuntarily reassigned to new channels as a result of the BIA.

Section 511 of Title V of Division E of the Consolidated Appropriations Act, 2018, P.L. 115-141, also known as the Reimbursement Expansion Act (REA), appropriated an additional $1,000,000 in new funding for the TVBRF, which increased its cap to $2,750,000 and also expanded the universe of entities eligible for reimbursement to cover the costs reasonably incurred by displaced low power TV and Television translator stations (LPTV/TV Translator) to relocate or modify their facilities, and by FM radio stations (FM stations) to reasonably minimize disruption of their services due to the TV repacking process.

Note 1 – Summary of Significant Accounting Policies (continued)

Q. Broadcast Incentive Auction (continued)

The additional $1,000,000 in new funding was appropriated over two fiscal years, $600,000 in FY 2018 and $400,000 in FY 2019. For FY 2018, the REA provides for funding of not more than $350 million to reimburse full power and Class A stations, not more than $150 million for LPTV/TV Translator, and not more than $50 million for FM stations to reimburse such stations for their costs. The REA also provides $50 million in FY 2018 funds for the Commission to use for consumer education relating to the reorganization of broadcast television. The REA does not expressly delineate the use of FY 2019 funds among the various categories of eligible recipients. In implementing the REA for the new universe of entities eligible for reimbursement, the Commission determined in the *REA Report & Order*, adopted March 15, 2019, that reimbursement of full power and Class A stations and MVPDs would be prioritized over reimbursement of LPTV/TV Translator and FM stations. As of September 30, 2019, the Commission made a total allocation of $1,820,184 for eligible full power and Class A broadcasters and MVPDs.

Accrued Liabilities are recorded in the TVBRF for invoices received but not processed and for costs incurred but not invoiced. As of September 30, 2019, an accrued accounts payable of $324,460 was recorded for the full power and Class A broadcasters and MVPDs.

On August 15, 2019, the Commission issued a Public Notice (PN), DA 19-774, *The Incentive Auction Task Force and Media Bureau Announce Reimbursement Form Availability and Filing Deadline and Procedures for Reimbursement of Lower Power TV, TV Translator, and FM Stations*, and the Commission is currently receiving and validating banking information from these new eligible entities in anticipation of commencing reimbursements to these new entities in FY 2020. The amount allocated in the first allocation will be equal to or less than the $200,000 appropriated for these new eligible entities. Obligations, expenses, and liabilities for approved reimbursements for LPTV/TV Translator and FM stations will occur upon the issuance of the allocation PN in FY 2020. As a result, in FY 2019, no accrued liability was recorded for the LPTV/TV Translator and FM stations.

R. Connect America Fund Rate of Return Carriers

In FY 2017, rate-of-return carriers were given an option to elect model-based support that would provide a fixed amount of monthly support over a ten-year period. In return, carriers were required to meet specific build out requirements. As a result of the initial offer, 207 carriers accepted $5,283,553 in Alternative Connect America Cost Model (A-CAM) support and 21 carriers accepted $1,283,137 in Alaska Plan support. Pursuant to the FCC's December 2018 Rate-of Return Order, 186 rate-of-return carriers elected 242 revised offers to receive an additional $65,696 in annual support plus an additional two years of existing support through 2028. This resulted in new A-CAM obligations totaling $1,719,276 for FY 2019. In August 2019, the USF obligated $5,024,044 in A-CAM II funds subsequent to the release of FCC PN DA 19-808, authorizing 171 rate-of-return carriers that elected 184 offers of A-CAM II support over a 10-year period and 35 carriers to receive transition payments. As a result, the total obligation was reduced by the portion that was previously disbursed through Legacy funds during the six months from January 2019 through June 2019.

Note 1 – Summary of Significant Accounting Policies (continued)

S. Connect America Fund Phase II Auction

After completing the Connect America Fund Phase II reverse auction (CAF II Auction), the FCC committed to award a potential total of $1,488,330 over a 10-year period. As of September 30, 2019, the FCC has directed USAC to obligate a total of $1,036,114 for carriers which have successfully complied with the requirements to be eligible to receive support to provide fixed broadband and voice services to over 700,000 locations in 45 states. There remains a balance of $452,216 to be obligated. In addition, the FCC committed to award a potential total of $55,421 to carriers that won the CAF II New York Auction.

T. Comparison and Other

Effective for FY 2019, the Federal Accounting Standards Advisory Broad (FASAB) issued SFFAS 53, *Budget and Accrual Reconciliation,* which requires a reconciliation of net outlays on a budgetary basis to its net cost of operations (reported on an accrual basis) during the reporting period. The Budget and Accrual Reconciliation replaces the Statement of Financing (SOF) note disclosure. OMB Circular No. A-136, *Financial Reporting Requirements*, indicates that comparative presentation for the prior year is not required in the initial year of implementation. The analysis only displays information for the reporting period for the Year Ended September 30, 2019.

Note 2 – Non-entity Assets

The following summarizes Non-entity Assets as of September 30, 2019 and 2018:

	FY 2019	FY 2018
Intragovernmental:		
Fund Balance with Treasury	$ 6,108,348	$ 4,692,333
Accounts Receivable	351	351
Total Intragovernmental	6,108,699	4,692,684
Accounts Receivable, Net	15,601	9,551
Total Non-entity Assets	6,124,300	4,702,235
Total Entity Assets	9,685,906	10,165,963
Total Assets	$ 15,810,206	$ 14,868,198

Non-entity Fund Balance with Treasury (FBWT) primarily represents auction deposits. Accounts receivable considered non-entity include 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, 2019 and 2018:

	FY 2019	FY 2018
Unobligated Balance		
Available	$ (10,367,548)	$ (2,957,023)
Unavailable	46,456	145,870
Obligated Balance not yet Disbursed	18,729,441	9,216,647
Non-Budgetary FBWT	6,108,348	4,692,333
Total	$ 14,516,697	$ 11,097,827

The FBWT includes general funds, revolving funds, special funds, and deposit funds.

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, and the Office of Inspector General USF funds.

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

Special Funds – Includes funds from TVBRF and USF. TVBRF is for relocation costs reasonably incurred by full power and Class A broadcasters, MVPDs, LPTV, TV Translator, FM stations who were involuntarily reassigned to new channels or incur reimbursable expenses as a result of the BIA, and for consumer education relating to the reorganization of broadcast television. Universal Service funds are for the four USF programs. These four USF programs are exempt from the application of the provisions of the Antideficiency Act by Congress through December 31, 2019 and are not subject to an apportionment by OMB. In May 2018, USAC began moving USF funds held in a private banking institution to an account within Treasury and as of September 30, 2019, USAC has completed the transfer.

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, 2019 and 2018:

	FY 2019	FY 2018
Cash and Other Monetary Assets	$ 5,437	$ 1,698

TRS contributions and related accrued interest being held for distribution are the sources of funds for these balances. Prior to FY 2019, upfront payments, unless refunded, were held until 45 days after the close of a given auction and then transferred to the Commission's Treasury account. The RAY BAUM'S Act required upfront payments of auction bidders to be deposited directly into the Treasury instead of an interest-bearing commercial bank account starting October 1, 2018. Interest earned on TRS contributions is reinvested. During FY 2018, any interest earned on auction upfront payments was transferred to the Treasury General Fund.

In FY 2019, Cash and Other Monetary Assets included $5,437 in TRS contributions and related accrued interest being held for distribution.

In FY 2018, Cash and Other Monetary Assets included $1,698 in TRS contributions and related accrued interest being held for distribution.

Note 5 – Investments

The following summarizes Investments as of September 30, 2019 and 2018:

FY 2019	Purchase Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Other Adjustments	Market Value Disclosures
Intragovernmental Securities:							
Marketable Securities							
Treasury Bills	$ 307,224	EI	$ 675	$ -	$ 307,899	$ -	$ 307,224
Total	$ 307,224		$ 675	$ -	$ 307,899	$ -	$ 307,224
FY 2018							
Intragovernmental Securities:							
Marketable Securities							
Treasury Bills	$ 172,621	EI	$ 240	$ -	$ 172,861	$ -	$ 172,853
Treasury Notes	2,702,984	EI	5,232	5,884	2,714,100	-	2,682,338
Total	$ 2,875,605		$ 5,472	$ 5,884	$ 2,886,961	$ -	$ 2,855,191

EI - Effective Interest Method

All Treasury securities, regardless of their maturity date, are reported as investments. The Commission expects to hold all investments to maturity; therefore, no adjustments have been made to present market value in FY 2019 and FY 2018.

Beginning in the third quarter of FY 2018, USAC started to move the USF funds held outside of Treasury to a newly established account within the Treasury. As of September 30, 2019, USAC completed the transfer. All remaining investments as of September 30, 2019 are TRS funds.

Note 5 – Investments (continued)

In the second quarter of FY 2018 and prior, the cash receipts collected from the public for the USF were used to purchase Federal securities. With the completion of the transfer, the portfolio balances will decrease as the USF funds are moved to an account within Treasury instead of being 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 U.S. Government, these assets and liabilities offset each other from the standpoint of the U.S. Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Note 6 – Accounts Receivable, Net

The following summarizes Accounts Receivable, Net as of September 30, 2019 and 2018:

	Intragovernmental	Public	Total
FY 2019			
Gross Accounts Receivable	$ 449	$ 1,737,588	$ 1,738,037
Allowance for Doubtful Accounts	-	(844,267)	(844,267)
Accounts Receivable, Net	$ 449	$ 893,321	$ 893,770
FY 2018			
Gross Accounts Receivable	$ 429	$ 1,582,711	$ 1,583,140
Allowance for Doubtful Accounts	-	(799,331)	(799,331)
Accounts Receivable, Net	$ 429	$ 783,380	$ 783,809

The following summarizes accounts receivable by type as of September 30, 2019 and 2018:

	FY 2019			FY 2018		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 1,229,749	$ (361,278)	$ 868,471	$ 1,102,606	$ (333,352)	$ 769,254
COMAD - Schools and Libraries	198,982	(190,459)	8,523	162,998	(158,434)	4,564
Regulatory Fees	33,717	(21,902)	11,815	30,540	(24,348)	6,192
Spectrum Auction	8,680	(8,680)	-	8,707	(8,707)	-
Civil Monetary Penalties	255,212	(254,368)	844	267,769	(266,885)	884
Other	11,697	(7,580)	4,117	10,520	(7,605)	2,915
Total	$ 1,738,037	$ (844,267)	$ 893,770	$ 1,583,140	$ (799,331)	$ 783,809

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 receivables for Schools and Libraries recorded an allowance rate of 96% in FY 2019 and 97% in FY 2018.

The USF accounts receivables includes $9,047 of gross receivables pertaining to criminal restitution for the TRS. The TRS estimated the net realizable value of criminal restitution receivable to be zero and recorded an allowance for the full amount of the receivable, $9,047.

Note 7 – Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2019 and 2018:

	FY 2019	FY 2018
Intragovernmental:		
FECA Liability	$ 548	$ 561
Total Intragovernmental	548	561
Actuarial FECA Liability	3,118	2,984
Other:		
Unfunded Leave	18,083	17,467
Engery Savings Performance Contract	7,114	7,607
Accrued Liabilities for Universal Service	489,926	524,358
Total liabilities not covered by budgetary resources	518,789	552,977
Total liabilities covered by budgetary resources	811,270	626,984
Total liabilities not requiring budgetary resources	6,112,868	4,697,044
Total Liabilities	$ 7,442,927	$ 5,877,005

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

Liabilities not requiring budgetary resources are liabilities that have not in the past required, and will not in the future require, the use of budgetary resources.

Note 8 – Other Liabilities

The following summarizes Other Liabilities as of September 30, 2019 and 2018:

FY 2019	Non-Current	Current	Total
Intragovernmental			
Liability to the General Fund and Other Non-Entity Assets	$ -	$ 3,381,997	$ 3,381,997
Other	-	3,214	3,214
Total Intragovernmental	$ -	$ 3,385,211	$ 3,385,211
Deferred Revenue	$ 24,580	$ 2,743,397	$ 2,767,977
Prepaid Contributions	-	57,155	57,155
Accrued Liabilities for Universal Service	-	489,926	489,926
Other	6,666	34,723	41,389
Total Other	$ 31,246	$ 3,325,201	$ 3,356,447

FY 2018	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 3,511,422	$ 3,511,422
Other	-	2,620	2,620
Total Intragovernmental	$ -	$ 3,514,042	$ 3,514,042
Deferred Revenue	$ 26,188	$ 1,179,525	$ 1,205,713
Prepaid Contributions	-	36,252	36,252
Accrued Liabilities for Universal Service	-	524,358	524,358
Other	6,880	32,091	38,971
Total Other	$ 33,068	$ 1,772,226	$ 1,805,294

The Liability to the General Fund and Other Non-Entity Assets includes both cash collected and net accounts receivable being held for transfer to the Treasury General Fund or other Federal agencies. In FY 2019, the presentation for Custodial liability is revised and included into "The Liability to the General Fund and Other Non-Entity Assets." 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 contribution overpayments that may be refunded or used to offset future payments. Accrued Liabilities for Universal Service Fund primarily represent anticipated future payments for the Lifeline program, and certain support mechanisms within the High Cost program and TRS Fund. The obligations for these subsidies are not recognized until payment files are approved in the subsequent month. Remaining Other Liabilities primarily represent anticipated payments related to payroll and other services, Energy Saving Performance Contract, 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 Universal Service funds from its programs which might result in future proceedings or actions. Similarly, the Commission, RL, and the Department of Justice are investigating several cases related to the TRS funds. The complexity of these future actions precludes management from estimating the total amount of recovery that may result.

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

As of September 30, 2019, 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

The telecommunications companies in the U.S. 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 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.

As previously discussed, the Spectrum Act requires the Commission to reimburse relocation costs reasonably incurred by full power and Class A broadcasters and MVPDs who are involuntarily reassigned to new channels as a result of the BIA. In FY 2018, Congress appropriated additional funding and also expanded the universe of entities eligible for reimbursement. These reimbursement costs are accounted for in the U.S. Budget as the "TV Broadcaster Relocation Fund," which is funded by forward auction proceeds and direct appropriations. The Commission recognized the reimbursement costs for the TVBRF as program expenses on the Statement of Net Cost.

The Commission had no activity related to Gifts and Bequests in FY 2019 and FY 2018.

The following pages summarize the significant assets, liabilities, and related costs incurred related to the USF and TVBRF as of September 30, 2019 and 2018.

Note 10 – Funds from Dedicated Collections (Continued)

FY 2019	TVBRF	USF	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2019			
Assets:			
Fund Balance with Treasury	$ 1,953,849	$ 6,200,654	$ 8,154,503
Investments	-	307,899	307,899
Cash and other monetary assets	-	5,437	5,437
Accounts receivable, net	297	877,363	877,660
General property, plant, and equipment, net	-	23,571	23,571
Other assets	-	13,024	13,024
Total assets	$ 1,954,146	$ 7,427,948	$ 9,382,094
Liabilities:			
Accounts payable	$ 324,459	$ 358,815	$ 683,274
Deferred revenue	-	10,174	10,174
Prepaid contributions	-	57,155	57,155
Accrued liabilities	-	489,926	489,926
Total liabilities	$ 324,459	$ 916,070	$ 1,240,529
Unexpended Appropriations	$ 982,952	$ -	$ 982,952
Cumulative results of operations	646,735	6,511,878	7,158,613
Total liabilities and net position	$ 1,954,146	$ 7,427,948	$ 9,382,094
Statement of Net Cost for the Period Ended September 30, 2019			
Net cost of operations	$ 681,827	$ 10,083,093	$ 10,764,920
Statement of Changes in Net Position for the Period Ended September 30, 2019			
Unexpended Appropriations			
Total Unexpended Appropriations	$ 982,952	$ -	$ 982,952
Cumulative results from operations			
Beginning Balances	1,311,514	6,765,745	8,077,259
Appropriations used	17,048		17,048
Non-exchange revenue	-	9,829,226	9,829,226
Net cost of operations	681,827	10,083,093	10,764,920
Change in net position	(664,779)	(253,867)	(918,646)
Cumulative results of operations	646,735	6,511,878	7,158,613
Net position	$ 1,629,687	$ 6,511,878	$ 8,141,565

Note 10 – Funds from Dedicated Collections (Continued)

FY 2018	TVBRF	USF	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2018			
Assets:			
Fund Balance with Treasury	$ 2,134,077	$ 3,929,106	$ 6,063,183
Investments	-	2,886,961	2,886,961
Cash and other monetary assets	-	1,698	1,698
Accounts receivable, net	-	774,734	774,734
General property, plant, and equipment, net	-	26,737	26,737
Other assets	-	18,024	18,024
Total assets	$ 2,134,077	$ 7,637,260	$ 9,771,337
Liabilities:			
Accounts payable	$ 222,563	$ 297,810	$ 520,373
Deferred revenue	-	13,095	13,095
Prepaid contributions	-	36,252	36,252
Accrued liabilities	-	524,358	524,358
Total liabilities	$ 222,563	$ 871,515	$ 1,094,078
Unexpended Appropriations	$ 600,000	$ -	$ 600,000
Cumulative results of operations	1,311,514	6,765,745	8,077,259
Total liabilities and net position	$ 2,134,077	$ 7,637,260	$ 9,771,337
Statement of Net Cost for the Period Ended September 30, 2018			
Net cost of operations	$ 438,486	$ 9,935,288	$ 10,373,774
Statement of Changes in Net Position for the Period Ended September 30, 2018			
Unexpended Appropriations			
Appropriations received	$ 600,000	$ -	$ 600,000
Cumulative results from operations			
Beginning Balances	1,750,000	7,157,714	8,907,714
Non-exchange revenue	-	9,543,325	9,543,325
Other financing sources	-	(6)	(6)
Net cost of operations	438,486	9,935,288	10,373,774
Change in net position	(438,486)	(391,969)	(830,455)
Cumulative results of operations	1,311,514	6,765,745	8,077,259
Net position	$ 1,911,514	$ 6,765,745	$ 8,677,259

Note 11 – Inter-Entity Costs

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Commission are recognized as imputed cost in the Statement of Net Cost and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to employee benefits. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

Note 12 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders totaled $18,045,870 as of September 30, 2019 and $13,936,671 as of September 30, 2018. The following summarizes Undelivered Orders as of September 30, 2019 and 2018:

FY 2019	Federal	Non-Federal	Total
Undelivered Orders-Unpaid	$ 3,333	$ 18,028,272	$ 18,031,605
Undelivered Orders-Paid	1,241	13,024	14,265
Total	$ 4,574	$ 18,041,296	$ 18,045,870

FY 2018	Federal	Non-Federal	Total
Undelivered Orders-Unpaid	$ 4,823	$ 13,911,958	$ 13,916,781
Undelivered Orders-Paid	1,866	18,024	19,890
Total	$ 6,689	$ 13,929,982	$ 13,936,671

Note 13 – 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 the TRS 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. For Federal budgetary purposes, these contributions are accounted for 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 instead are determined by specified variable factors, such as cash needs for liquidating accounts, and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

Note 13 – Permanent Indefinite Appropriations (Continued)

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. These retained proceeds are offsetting collections that remain available until expended. Notwithstanding 47 U.S.C. § 309(j)(8)(B), for FY 2019 Congress limited the amount of the auction proceeds that may be retained and made available for obligation to $130,284.

Note 14 – Legal Arrangements Affecting Use of Unobligated Balances

Offsetting collections received in excess of $339,000 in FY 2019 and $322,035 in FY 2018 are precluded from obligation. In addition, the RAY BAUM'S Act requires the Commission to transfer all excess regulatory fees collected from prior and subsequent fiscal years to the Treasury General Fund for the sole purpose of deficit reduction.

Note 15 – 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 2018 and the amounts presented in the FY 2020 Budget of the United States Government. The FY 2021 Budget of the United States Government, which will include actual numbers for FY 2019, has not been published at this time. Pursuant to 31 USC § 1105, the Budget of the United States Government will be released not later than the first Monday in February and will be available at the following website: https://www.whitehouse.gov/omb/budget/.

Note 16 – Custodial Revenues

In accordance with the provisions of SFFAS 7, *Accounting for Revenue & Other Financing Sources*, the Commission collects non-exchange revenues related to miscellaneous receipts and fines and forfeitures to be deposited in the Treasury General Fund. Fines and Forfeitures are made up of consent decrees and forfeiture orders. Forfeiture orders are probable, measurable, and legally enforceable claims, but need to result in a judgement issued by a Federal court before they become legally collectible debts. Consent decrees are legally collectible debts. Additionally, the Commission reports exchange revenue associated with radio spectrum auction proceeds on the Statement of Custodial Activity. For more information, refer to Note 1 N.

Note 17 – Reconciliation of Net Cost to Net Outlays

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

Note 17 – Reconciliation of Net cost to Net Outlays (Continued)

OMB Circular No. A-136, *Financial Reporting Requirements* indicates that comparative presentation for the prior year is not required in the initial year of implementation. The analysis below illustrates this reconciliation by listing the Commission's key differences between net cost and net outlays for the reporting period as of September 30, 2019. For more information, refer to Note 1 T.

	Intragovernmental	With the Public	Total
Net Cost of Operations	$ 113,310	$ 10,595,622	$ 10,708,932
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, plant, and equipment depreciation	-	(23,200)	(23,200)
Increase/(Decrease) in Assets not affecting Budget Outlays:			
Accounts receivable	56	(3,640)	(3,584)
Other assets	(624)	(5,000)	(5,624)
Investments	-	(5,214)	(5,214)
(Increase)/Decrease in Liabilities not affecting Budget Outlays:			
Accounts payable	2,379	(167,160)	(164,781)
Salaries and benefits	(613)	(1,602)	(2,215)
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	12	36,033	36,045
Other financing sources:			
Federal employee retirement benefit costs paid by OPM & imputed to agency	(13,345)	-	(13,345)
Total Components of Net Operating Cost Not Part of the Budget Outlays	$ (12,135)	$ (169,783)	$ (181,918)
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Acquisition of capital assets	-	17,324	17,324
Other	(1)	(17,201)	(17,202)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	$ (1)	$ 123	$ 122
NET OUTLAYS (Calculated Total)	$ 101,174	$ 10,425,962	$ 10,527,136
Related Amounts on the Statement of Budgetary Resources			
Outlays, net (total) (discretionary and mandatory)			10,582,524
Distributed offsetting receipts (-)			(55,388)
Agency outlays, net (discretionary and mandatory)			$ 10,527,136

Note 18 – Disclosure Entities

Universal Service Administrative Company (USAC) – The Commission is responsible for the overall management and oversight of the USF, including all USF policy decisions. USAC was established in 1997 as a not-for-profit subsidiary of the National Exchange Carrier Association, Inc. (NECA), and in that same year, the FCC appointed USAC as the permanent administrator, under the Commission's direction, of the four USF programs. The four USF programs are High Cost, Lifeline, Rural Health Care, and School and Libraries. USAC, as the administrator of the USF, is responsible for the effective administration of the four programs, including billing, collection, and disbursement. In the third quarter of FY 2018, under the Commission's authorization, USAC began using an account within Treasury for collections and disbursements.

National Exchange Carrier Association, Inc. (NECA) – NECA was established as a non-stock Delaware corporation, which, pursuant to FCC rules, files interstate access tariffs and administers interstate access revenue pools for local telephone companies throughout the United States including its territories. NECA performs data collection functions for the High Cost program and bills USAC for the associated costs. NECA is compensated by USAC in accordance with NECA's Cost Accounting and Procedures Manual. NECA has no management control over USAC and derives no economic benefits from this subsidiary relationship. NECA does not consolidate with USAC's financial statements since it does not meet the criteria for consolidation in accordance with the accounting standards for consolidation of all majority-owned subsidiaries. The investment in USAC, which is carried at cost, is insignificant to these financial statements.

North American Numbering Plan Administrator (NANPA) Program – The NANPA administers a telephone numbering plan, the North American Numbering Plan, that encompasses 20 countries primarily in Northern America. For the United States only, the program also includes the functions of the Pooling Administrator, which administers pooling of geographic phone numbers in the United States, and the Routing Number Administrator, which administers use of certain special purpose numbers. The NANPA program is funded by fees charged to member countries for its services provided to them. In the United States, the telecommunications service providers directly pay for the NANPA services provided to the United States, per FCC rules. While the FCC requires these costs to be recovered from service providers, the receipts go directly to the Billing and Collection Agent for disbursement to the NANPA and is never included in the Federal budget. The Commission contracts for and exercises oversight over the NANPA, currently Somos, Inc., as well as the Billing and Collection Agent, currently Welch, LLP.

Local Number Portability Administrator (LNPA) Program – The LNPA program facilitates portability of U.S. geographic telephone numbers between telephony service providers. The LNPA program provides and operates the Number Portability Administration Center (NPAC) system that provides local number portability for the United States, performing the service of porting telephone numbers between service providers. The LNPA program is funded by fees the LNPA charges telecommunications service providers for its service, pursuant to FCC rules.

The FCC exercises oversight of the LNPA procurement process and regulates local number portability. The FCC has authorized the telephony service provider industry consortium, North American Portability Management, LLC (NAPM), to procure the LNPA and oversee the LNPA's performance and operation of the LNPA program. Currently iconectiv, LLC is the LNPA under a contract with NAPM; iconectiv, LLC is a subsidiary, subject to a voting trust, of Telefonaktiebolaget LM Ericsson (d/b/a Ericsson), a publicly-traded Swedish multinational networking and telecommunications company.

Note 18 – Disclosure Entities (continued)

North American Portability Management, LLC (NAPM) – NAPM is a Delaware limited liability company formed for the purpose of engaging in business activities related to the development and implementation of policies for number portability in seven NPAC regions of the United States. The FCC formed NAPM to procure and manage the LNPA program (FCC 97-289, 12 FCC Rcd 12281).

NAPM is a telephony service provider industry consortium, whose membership is currently comprised of companies from a cross section of the industry representing wireless, wireline, cable, and Voice Over Internet Protocol (VoIP) providers. The purpose of NAPM is to negotiate and manage contracts for the LNPA program, including immediate oversight and management of the LNPA in accordance with the rules and policies of the FCC. NAPM manages the contracts for each of the seven regions with a third-party vendor chosen by NAPM and approved by the FCC to serve as the LNPA. NAPM is funded by fees charged to its members.

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity,* the Commission reported USAC and NECA as disclosure entities beginning in FY 2018 and added NANPA program, LNPA program, and NAPM as disclosure entities beginning in FY 2019. None of these disclosure entities substantially meet the requirements to be consolidated entities. As of September 30, 2019, the likelihood is considered remote of any potential financial and non-financial risks or benefits for the Commission associated with the control of or involvement with USAC, NECA, NANPA program, LNPA program, or NAPM. USAC and NECA are all not-for-profit corporations, the NAPM is a Delaware limited liability company, and NANPA and LNPA are programs pursuant to FCC rules. USAC's annual reports are available at https://www.usac.org, while NECA's annual reports are available at https://www.neca.org. NANPA program's annual reports are submitted directly to FCC. LNPA program's annual reports are submitted to NAPM, which provides them to the FCC. NAPM does not produce and issue annual reports, however it provides financial statements to the FCC.

Note 18 – Disclosure Entities (continued)

The following table summarizes the balances and activities recognized in the Commission's financial statements due to transactions with USAC and NECA for the fiscal year ended September 30, 2019 and September 30, 2018:

Summary of Balances Associated with Disclosure Entities

FY 2019	Universal Service Adminstrative Company (USAC)	National Exchange Carrier Association, Inc. (NECA)	Total Balances Associated with Disclosure Entities
Balance Sheet			
Other assets (Note 1 I)	$ 13,024	$ -	$ 13,024
Accounts payables[1]	5,632	27	5,659
Statement of Net Cost			
Net cost of operations[2]	$ 174,750	$ 510	$ 175,260
Statement of Changes in Net Position			
Net cost of operations[2]	$ 174,750	$ 510	$ 175,260

FY 2018	Universal Service Adminstrative Company (USAC)	National Exchange Carrier Association, Inc. (NECA)	Total Balances Associated with Disclosure Entities
Balance Sheet			
Other assets (Note 1 I)	$ 18,024	$ -	$ 18,024
Accounts payables[1]	9,602	66	9,668
Statement of Net Cost			
Net cost of operations[2]	$ 188,846	$ 455	$ 189,301
Statement of Changes in Net Position			
Net cost of operations[2]	$ 188,846	$ 455	$ 189,301

[1] This portion in the accounts payable consists of the USF administrative fees due to USAC and NECA.

[2] This portion of the operation expenses includes the administrative fees incurred in USF. The Commission approves the administrative costs to 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.

Note 19 – Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to the Financial Report of the United States Government Format

To prepare the Financial Report of the U.S. Government (FR), the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows the Commission's financial statements and the Commission's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2019 FR will be found here: https://www.fiscal.treasury.gov/reports-statements/ as soon as it is released. The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments.

Reclassification of Balance Sheet to Government-wide Balance Sheet Format
As of September 30, 2019

AFR Line	2019 Balance Sheet	2019 Reclassified Balance Sheet	Reclassified Line
ASSETS			**ASSETS**
Intra-Governmental Assets			**Intra-Governmental Assets**
FBWT	$ 14,516,697	$ 14,516,697	FBWT
Investments, Net	307,899	307,899	Federal Investments
Total Investments, Net	*307,899*	*307,899*	*Total Reclassified Investments, Net*
Accounts Receivable	449	449	Accounts Receivable
Total Accounts Receivable	*449*	*449*	*Total Reclassified A/R*
Other	1,241	1,241	Advances to Others and Prepayments
Total Other	*1,241*	*1,241*	*Total Reclassified Other*
Total Intra-Governmental Assets	**$ 14,826,286**	**$ 14,826,286**	**Total Intra-Governmental Assets**
Cash and Other Monetary Assets	5,437	5,437	Cash and Other Monetary Assets
Accounts Receivable, Net	893,321	893,321	Accounts and Taxes Receivable, Net
General PP&E, Net	72,138	72,138	PP&E, Net
Other	13,024	13,024	Other Assets
Total Assets	**$ 15,810,206**	**$ 15,810,206**	**Total Assets**

Note 19 – Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to the Financial Report of the United States Government Format (continued)

Reclassification of Balance Sheet to Government-wide Balance Sheet Format
As of September 30, 2019

AFR Line	2019 Balance Sheet	2019 Reclassified Balance Sheet	Reclassified Line
LIABILITIES			**LIABILITIES**
Intra-Governmental Liabilities			**Intra-Governmental Liabilities**
Accounts Payable	$ 813	$ 813	Accounts Payable
Total Accounts Payable	*813*	*813*	*Total Reclassified Accounts Payable*
Other – Liability to the General Fund of the U.S. Government and Other Non-Entity Assets	3,381,997	3,381,997	Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
Other – Miscellaneous Liabilities	3,214	2,215	Benefit Program Contributions Payable
		999	Other liabilities
Total Other - Miscellaneous Liabilities	*3,385,211*	*3,385,211*	*Total Reclassified Other - Miscellaneous Liabilities*
Total Intra-Governmental Liabilities	**$ 3,386,024**	**$ 3,386,024**	**Total Intra-Governmental Liabilities**
Accounts Payable	697,338	697,338	Accounts Payable
Federal Employee and Veteran Benefits[3]	3,118	3,122	Federal Employee and Veteran Benefits Payable
Advances and Deferred Revenue	2,767,977		Other Liabilities
Prepaid Contributions	57,155		Other Liabilities
Accrued Liabilities for Universal Service	489,926		Other Liabilities
Other	41,389	3,356,443	Other Liabilities
Total Miscellaneous Liabilities[3]	***3,356,447***	***3,356,443***	*Total Reclassified Miscellaneous Liabilities*
Total Liabilities	**$ 7,442,927**	**$ 7,442,927**	**Total Liabilities**
NET POSITION			
Unexpended Appropriations – Funds from Dedicated Collections	$ 982,952	$ 982,952	Net Position – Funds from Dedicated Collections (Unexpended Appropriations)
Unexpended Appropriations – All Other Funds	2,816	2,816	Net Position – Funds Other than those from Dedicated Collections (Unexpended Appropriations)
Cumulative Results of Operations – Funds from Dedicated Collections	7,158,613	7,158,613	Net Position – Funds from Dedicated Collections (Cumulative Results of Operations)
Cumulative Results of Operations – All Other Funds	222,898	222,898	Net Position – Funds Other than those from Dedicated Collections (Cumulative Results of Operations)
Total Net Position	**$ 8,367,279**	**$ 8,367,279**	**Total Net Position**
Total Liabilities & Net Position	**$ 15,810,206**	**$ 15,810,206**	**Total Liabilities & Net Position**

[3] These line items do not match the line items in the reclassified financial statements due to a difference in reporting the "Federal Employee and Veteran Benefits" at the agency level and Government-wide level. At the agency level, $3,122 reported on the Reclassified Line for "Federal Employee and Veteran Benefits Payable" is split between the AFR Line "Federal Employee and Veteran Benefits" and "Other."

Note 19 – Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to the Financial Report of the United States Government Format (continued)

Reclassification of Statement of Net Cost to Government-wide Statement of Net Cost Format
For the Year Ended September 30, 2019

AFR Line	2019 SNC	2019 Reclassified SNC	Reclassified Line
Gross Costs	$ 11,222,891	$ 11,108,718	Non-Federal Gross Cost
			Intragovernmental Costs
		39,713	Benefit Program Costs
		13,345	Imputed Costs
		48,095	Buy/Sell Costs
		13,020	Other Expenses (w/o Reciprocals)
		114,173	***Total Intragovernmental Costs***
Total Gross Costs	***$ 11,222,891***	***$ 11,222,891***	*Total Reclassified Gross Costs*
Earned Revenue[4]	(513,959)	(382,811)	Non-Federal Earned Revenue
			Intragovernmental Revenue
		(863)	Buy/Sell Revenue
		(1)	Borrowing and Other Interest Revenue
		(864)	***Total Intragovernmental Earned Revenue***
Total Earned Revenue	***(513,959)***	***(383,675)***	***Total Reclassified Earned Revenue***
Net Cost of Operations	**$ 10,708,932**	**$ 10,839,216**	**Net Cost of Operations**
Exchange Statement of Custodial Activity			
Refunds and Other Payments Auctions Salaries & Expenses		**(130,284)**	Buy/Sell Revenue (Intradepartmental Eliminations for Auctions Salaries & Expenses)[4]
Net Cost of Operations	**$ 10,708,932**	**$ 10,708,932**	**Net Cost of Operations**

[4] Pursuant to 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 $130,284 for FY 2019. At the agency level these amounts are recognized on the Consolidated Statement of Custodial Activity in the "Refunds and Other Payments" sections on the line "Auctions Salaries & Expenses (FCC)" and the "Less: earned revenues not attributed to programs" on the Consolidated Statement of Net Cost. At the Government-wide level these amounts are eliminated on the Reclassified Statement of Net Cost.

Note 19 – Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to the Financial Report of the United States Government Format (continued)

Reclassification of Statement of Changes in Net Position to Government-wide Statement of Changes in Net Position

For the Year Ended September 30, 2019

AFR Line	2019 SCNP	2019 Reclassified SCNP	Reclassified Line
UNEXPENDED APPRORPATIONS			
Unexpended Appropriations, Beginning Balance	$ 602,816	$ 8,991,194	Net Position, Beginning of Period
Appropriations Received, General Funds	400,000	400,000	Appropriations Received as Adjusted
Appropriations Used	(17,048)	(17,048)	Appropriations Used (Federal)
Total Unexpended Appropriations	**$ 985,768**		
CUMULATIVE RESULTS OF OPERATIONS			
Cumulative Results, Beginning Balance	8,388,377		
Appropriations Used	17,048	17,048	Appropriations Expended
Non-Exchange Revenue	9,829,226		***Non-Federal Non-Exchange Revenues***
SCA: Sources of Cash Collecitons: Fines and	7,746	9,817,036	Other Taxes and Receipts
SCA: Sources of Cash Collecitons: Spectrum	1,156,980	1,156,980	Miscellaneous Earned Revenues
SCA: Accrual Adjustments: Fines and Penalties	424		
		10,974,016	***Total Non-Federal Non-Exchange Revenues***
			Intragovernmental Non-Exchange Revenue
		20,360	Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange
SCA: Disposition of Collections: Transferred to Others: Public Safety Trust Fund (NTIA)	(1,155,251)	(1,155,251)	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government
		(1,134,891)	***Total Intragovernmental Non-Exchange Revenue***
Total Non-Exchange Revenues	*9,839,125*	*9,839,125*	*Total Reclassified Non-Exchange Revenue*
Imputed Financing	13,345	13,345	Imputed Financing Sources (Federal)
Other	(157,553)	(423)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund
SCA: Disposition of Collections: (Increase)/Decrease in Amounts Yet to be	129,425	(36,745)	Non-Entity Custodial Collections Transferred to the General Fund
SCA:Dispostion of Collections: Transferred to Others:	(9,040)		
Total Other	*(23,823)*	*(23,823)*	*Total Reclassified Other*
SCA: Disposition of Collections: Refunds and Other Payments Auctions Salaries & Expenses (FCC)	(130,284)		
Total Financing Sources	9,702,066		
Net Cost of Operations	10,708,932	10,839,217	**Net Cost of Operations** [4]
Ending Balance – Cumulative Results of Operations	7,381,511		
Total Net Position	8,367,279	8,367,279	**Net Position - Ending Balance**

Note 20 – Subsequent Event

The Incentive Auction of Upper Microwave Flexible Use Service Licenses in the 37 GHz, 39 GHz and 47 GHz Bands (Auction 103) is scheduled to begin in the first quarter of FY 2020. Upfront payments of Auction 103 bidders were deposited into the Treasury in October 2019.

On October 2, 2019, the Commission issued PN DA 19-994, granting 2,696 licenses in Auction 101, Auction of 28 GHz Upper Microwave Flexible Use Service Licenses, for $689,797 with 269 licenses not yet granted for $10,517.

In FY 2020, the Commission expects to release an allocation PN from the TVBRF for eligible LPTV, TV Translator, and FM stations and begin incurring obligations, expense, and liabilities related to the approved reimbursements for those entities.

In October 2019, the USF obligated an additional $61 million in CAF II Auction funds pursuant to FCC PN (DA 19-1030). The remaining balances of CAF II Auction funds are anticipated to be obligated in FY 2020.

Required Supplementary Information

Required Supplementary Information – Schedule of Budgetary Resources by Major Account

For the Years Ended September 30, 2019 and 2018
(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, TVBRF, and USF. S&E represents general salaries and expenses of the Commission. Auctions include salaries and expenses of the spectrum auctions program. The TVBRF represents reimbursements of relocation costs for eligible entities and for consumer education relating to the reorganization of broadcast television. USF includes the USF and TRS Fund. 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, 2019 and 2018 Combined Statement of Budgetary Resources.

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

FY 2019	S&E	Auctions	TVBRF	USF	Other	Total
Budgetary Resources:						
Unobligated balance from prior year budget authority, net	$ 87,470	$ 40,028	$ 642,269	$ (5,239,617)	$ 2,838	$ (4,467,012)
Appropriations (discretionary and mandatory)	-	-	400,000	9,756,114	-	10,156,114
Spending authority from offsetting collections (discretionary and mandatory)	340,183	130,284	-	-	5	470,472
Total budgetary resources	$ 427,653	$ 170,312	$ 1,042,269	$ 4,516,497	$ 2,843	$ 6,159,574
Status of Budgetary Resources:						
New obligations and upward adjustments (total)	$ 349,747	$ 131,809	$ 125,463	$ 15,592,710	$ 4	$ 16,199,733
Unobligated balance, end of year:						
Apportioned, unexpired accounts	73,846	32,348	897,685	298,030	2,816	1,304,725
Exempt from apportionment, unexpired accounts	-	-	-	(11,374,243)	-	(11,374,243)
Unapportioned, unexpired accounts	3,818	6,155	19,121	-	23	29,117
Unexpired unobligated balance, end of year	77,664	38,503	916,806	(11,076,213)	2,839	(10,040,401)
Expired unobligated balance, end of year	242	-	-	-	-	242
Unobligated balance, end of year (total)	77,906	38,503	916,806	(11,076,213)	2,839	(10,040,159)
Total status of budgetary resources	$ 427,653	$ 170,312	$ 1,042,269	$ 4,516,497	$ 2,843	$ 6,159,574
Outlays, Net:						
Outlays, net (discretionary and mandatory)	$ (26,887)	$ (19,602)	$ 580,229	$ 10,048,790	$ (5)	$ 10,582,525
Distributed offsetting receipts (-)	(23,929)	-	-	(31,459)	-	(55,388)
Agency outlays, net (discretionary and mandatory)	$ (50,816)	$ (19,602)	$ 580,229	$ 10,017,331	$ (5)	$ 10,527,137

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR ACCOUNT

FY 2018	S&E	Auctions	TVBRF	USF	Other	Total
Budgetary Resources:						
Unobligated balance from prior year budget authority, net	$ 92,535	$ 33,593	$ 1,629,250	$ (6,628,197)	$ 2,837	$ (4,869,982)
Appropriations (discretionary and mandatory)	-	-	720,750	9,456,480	-	10,177,230
Spending authority from offsetting collections (discretionary and mandatory)	322,758	111,150	-	-	9	433,917
Total budgetary resources	$ 415,293	$ 144,743	$ 2,350,000	$ 2,828,283	$ 2,846	$ 5,741,165
Status of Budgetary Resources:						
New obligations and upward adjustments (total)	$ 333,071	$ 107,692	$ 1,742,852	$ 8,875,756	$ 8	$ 11,059,379
Unobligated balance, end of year:						
Apportioned, unexpired accounts	78,030	33,755	607,148	161,616	2,780	883,329
Exempt from apportionment, unexpired accounts	-	-	-	(6,209,089)	-	(6,209,089)
Unapportioned, unexpired accounts	3,737	3,296	-	-	58	7,091
Unexpired unobligated balance, end of year	81,767	37,051	607,148	(6,047,473)	2,838	(5,318,669)
Expired unobligated balance, end of year	455		-	-	-	455
Unobligated balance, end of year (total)	82,222	37,051	607,148	(6,047,473)	2,838	(5,318,214)
Total status of budgetary resources	$ 415,293	$ 144,743	$ 2,350,000	$ 2,828,283	$ 2,846	$ 5,741,165
Outlays, Net:						
Outlays, net (discretionary and mandatory)	$ (3,992)	$ (8,607)	$ 215,923	$ 9,843,999	$ (6)	$ 10,047,317
Distributed offsetting receipts (-)	(29,276)	-	-	(63,773)	-	(93,049)
Agency outlays, net (discretionary and mandatory)	$ (33,268)	$ (8,607)	$ 215,923	$ 9,780,226	$ (6)	$ 9,954,268

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III. OTHER INFORMATION (UNAUDITED)

Summary of Financial Statement Audit

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

See accompanying auditor's report.

Summary of Management Assurances

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

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
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	Federal Systems 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 its processes in Fiscal Year (FY) 2019 in compliance with Federal statutes[1] and guidance detailed in the Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement* (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)
- TV Broadcaster Relocation Fund (TVBRF)

I. Payment Reporting

Table 1 below reports the improper payment rates for USF-HC, USF-S&L, USF-LL, USF-RHC, and TRS. FY 2019 is the first year that the FCC is reporting an error rate for USF-RHC, so this year's error rate will serve as the baseline. The USF-HC and USF-LL programs established baseline error rates in FY 2017. 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 total proper payments, estimated proper payment percentages, and reduction targets for FY 2020.

Besides the programs listed in Table 1, the FCC has not identified any of its other programs as being susceptible to significant improper payments for FY 2019 reporting purposes. 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.

[1] 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.

Table 1
Improper Payment (IP) for Current Year and Reduction Targets for FY 2020
($ in millions)

Program	Outlays[2]	Estimated Over-payments	Estimated Under-payments	Estimated Improper Payments	Estimated Improper Payment %	Estimated Proper Payments	Estimated Proper Payment %	Reduction Targets FY 2020[3]
USF-HC	$4,882.90	$0.10	$0.55	$0.65	0.01%	$4,882.25	99.99%	0.01%
USF-S&L	$2,206.08	$139.67	$0.00	$139.67	6.33%	$2,066.41	93.67%	4.00%
USF-LL	$1,168.11	$108.92	$0.00	$108.92	9.32%[4]	$1,059.19	90.68%	9.00%
USF-RHC	$298.46	$34.19	$0.00	$34.19	11.46%	$264.27	88.54%	11.00%
TRS	$1,350.87	$0.00	$2.00	$2.00	0.15%	$1,348.87	99.85%	0.00%
TOTAL[5]	**$9,906.42**	**$282.88**	**$2.55**	**$285.43**	**2.88%**	**$9,620.99**	**97.12%**	**2.37%**

[2] In the case of Outlays for USF-HC, USF-S&L, USF-LL, and USF-RHC, the numbers shown are calendar year numbers because the USF program fund year runs on a calendar year basis. In the case of TRS, the numbers shown are for the TRS fund year, which runs from July 1 through June 30.
[3] The Commission will be requesting relief in USF-HC and TRS programs for FY 2020 per OMB M-18-20 due to the error rates being below the OMB threshold. The Commission is also internally re-baselining the program to better understand improper payments under these programs.
[4] The FCC became aware of additional instances of non-compliance in the USF-LL program and the actual improper payment rate may be higher than 9.32% reported above.
[5] Please note as mentioned on the first page of this section, the FCC has established baseline error rates for USF-HC, USF-S&L, USF-LL, and USF-RHC.

Table 1.1
Monetary & Non-Monetary Loss
($ in millions)

Program	Estimated Monetary loss to Government	Estimated Non-Monetary loss to Government	Estimated Monetary loss within Agency Control	Estimated Monetary loss outside Agency Control
USF-HC	$0.10	$0.55	$0.00	$0.10
USF-S&L	$139.67	$0.00	$0.00	$139.67
USF-LL	$108.92	$0.00	$0.00	$108.92
USF-RHC	$34.19	$0.00	$0.00	$34.19
TRS	$0.00	$2.00	$0.00	$0.00
TOTAL	**$282.88**	**$2.55**	**$0.00**	**$282.88**

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 identified in Table 2 below are detailed in subsequent charts.

Table 2
Root Cause for Overpayments and Underpayments
($ in millions)

Program Name	Program Type	Administrative or Process Errors Made by: Other Party (Invoice Error)	Other Reason	Other Reason (a) see table below	Other Reason (b) see table below	Other Reason (c) see table below	Other Reason (d) (Confirmed Fraud)	Total
USF-HC	Overpayments	N/A	$0.10	N/A	N/A	N/A	N/A	$0.10
USF-HC	Underpayments	N/A	$0.55	N/A	N/A	N/A	N/A	$0.55
USF-S&L	Overpayments	$25.13	N/A	N/A	$114.54	N/A	N/A	$139.67
USF-S&L	Underpayments	N/A	N/A	N/A	N/A	N/A	N/A	$0.00
USF-LL	Overpayments	N/A	N/A	$108.92	N/A	N/A	N/A	$108.92
USF-LL	Underpayments	N/A	N/A	N/A	N/A	N/A	N/A	$0.00
USF-RHC	Overpayments	$1.50	N/A	N/A	N/A	$32.69	N/A	$34.19
USF-RHC	Underpayments	N/A	N/A	N/A	N/A	N/A	N/A	$0.00
TRS	Overpayments	N/A	N/A	N/A	N/A	N/A	N/A	$0.00
TRS	Underpayments	$2.00	N/A	N/A	N/A	N/A	N/A	$2.00

Table 2.1
Other Reason (a) – USF-LL
($ in millions)

Other Reason (a) - USF-LL	Improper Payments Amounts	
	Overpayments	Underpayments
Ineligible Subscriber - Duplicate Subscribers	$0.00	N/A
Ineligible Subscriber – Inadequate Independent Economic Household (IEH) Forms	$5.62	N/A
Ineligible Subscriber – Federal Assistance Programs	$0.69	N/A
Ineligible Subscriber - Eligibility Documentation	$4.71	N/A
Ineligible Subscriber - Inadequate Certification	$6.32	N/A
Ineligible Subscriber - Missing Certification	$91.51	N/A
Ineligible Subscriber - Tribal Link Up	$0.01	N/A
Ineligible Subscriber - Failed Recertification	$0.06	N/A
Total Other Errors	**$108.92**	N/A

Table 2.2
Other Reason (b) – USF-S&L
($ in millions)

Other Reason (b) – USF-S&L	Improper Payments Amounts	
	Overpayments	Underpayments
Competitive Bidding/Invalid Contract	$21.59	N/A
Payment received prior to goods/services delivery	$2.19	N/A
Recipient of Service Errors	$18.00	N/A
Goods/Services Received by Ineligible Non-Traditional Education	$3.01	N/A
Competitive Bidding/Incomplete Documentation	$67.23	N/A
Internal Connections/Not Installed	$1.38	N/A
SP LCP Confirmation/No Certification BEAR	$0.01	N/A
Failure to Pay Non-Discounted Share	$1.13	N/A
Total Other Errors	**$114.54**	N/A

Table 2.3
Other Reason (c) – USF-RHC
($ in millions)

Other Reason (c) - USF-RHC	Improper Payments Amounts	
	Overpayments	**Underpayments**
Incorrect Rural Rate Determination	$1.79	N/A
Incorrect Urban Rate Determination	$2.03	N/A
Incorrect Rural & Urban Rates Determination	$1.90	N/A
Improper Rate Submission	$4.65	N/A
Incorrect Urban Rate Determination & Improper Rate Submission	$3.86	N/A
Urban Rate Lack of Documentation	$0.24	N/A
Rural Rate Lack of Documentation	$2.31	N/A
Rural & Urban Rates Lack of Documentation	$1.06	N/A
Goods/Services not fully utilized	$0.52	N/A
Competitive Bidding	$0.18	N/A
Incomplete Documentation	$3.27	N/A
Ineligible Entity	$0.55	N/A
Untimely Rural Rate Submission (after disbursement)	$10.33	N/A
Total Other Errors	**$32.69**	N/A

Corrective Action Plans for Reducing the Estimated IP Rate and Amount

USF-LL

To reduce the incidence of improper payments and guard against fraud, the Commission recently adopted an order improving several aspects of the Lifeline enrollment and recertification processes.[6] In that order, the Commission targeted potential improper enrollments and fraud committed by eligible telecommunications carrier (ETC) enrollment representatives by prohibiting ETCs from paying commissions to employees or sales agents based on the number of consumers who apply for or are enrolled in the Lifeline program with that carrier, and by requiring those representatives to register with the Universal Service Administrative Company (USAC). The Commission also codified in its rules a prohibition on enrolling or claiming "subscribers" who are deceased and codified a requirement that all reimbursement claims be based on subscribers identified in the National Lifeline Accountability Database. The order also requires certain subscribers to submit updated eligibility documentation during the annual recertification process and establishes a risk-based approach for targeting certain Lifeline audits. The item also seeks comment on ways to further prevent waste, fraud, and abuse, including requiring additional information during the Lifeline application process, prohibiting the distribution of free handsets with Lifeline service activation, and ensuring that subscribers are properly de-enrolled under the Lifeline program's usage requirement.

Additionally, the Commission and USAC has established the Lifeline National Eligibility Verifier (National Verifier) to improve the integrity of the Lifeline eligibility verification process. The Commission directed USAC to create the National Verifier to determine eligibility for subscribers in all U.S. states and territories to receive USF benefits. The National Verifier includes multiple validations to prevent duplicate

[6] *See Bridging the Digital Divide for Low-Income Consumers*, Fifth Report and Order, Memorandum Opinion and Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking, WC Docket No. 17-287 et al., FCC 19-111 (rel. Nov. 14, 2019).

subscribers and ensure that proper supporting documentation is provided for enrollment. ETCs operating where the National Verifier is fully launched are required to use the National Verifier to make eligibility determinations for all consumers applying for Lifeline service. The National Verifier has fully launched in thirty-eight states and territories, soft launched in an additional nine states and one territory, and the National Verifier is expected to be launched in all remaining states and territories by the end of calendar year 2019. In conjunction with the rollout of the National Verifier, effective July 1, 2018, all ETCs must now use the eligibility certification language exactly as it is written on the universal form or established state certification form. In addition, when a state transitions to the National Verifier, all existing subscribers in that state are subject to an eligibility reverification process. Through this one-time reverification process, USAC confirms that existing Lifeline subscribers are qualified to receive the Lifeline benefit. If USAC is unable to confirm a subscriber's qualification, the subscriber is de-enrolled. The FCC and USAC expect the implementation of the National Verifier and the universal form requirement to assist in preventing improper payments.

In addition, USAC will engage with a third-party vendor to conduct a risk assessment of the Lifeline Program to ensure that the program meets all mission objectives. Further, in accordance with the *2016 Lifeline Reform Order*, USAC will engage with a third-party vendor to complete a program evaluation of the Lifeline Program's design, function, and administration consistent with GAO guidance on program evaluations.[7] Finally, USAC will conduct a fraud risk assessment of USF-LL consistent with GAO fraud risk guidelines.

USF-S&L

USAC is implementing a two-phase approach to address the root causes for the USF-S&L "Other Reasons" category.

Phase 1:
USAC enhanced its outreach approach, customizing specific direction to program participants based on their Payment Quality Assurance (PQA) exceptions. Outreach includes updates to the website training materials, conducting webinar(s) focused on common findings, and communicating best practices based on the observations made during the prior year's PQA reviews. USAC provides annual training and implemented an Online Training Library to provide program participants with tools that they can access at their convenience.

Phase 2:
USAC's Schools and Libraries Program performed a comprehensive assessment of its operational processes and procedures to determine where improvements can be made and efficiencies maximized. USAC expects to implement appropriate steps, such as ways to improve stakeholder training via periodic webinars and a review of existing procedures and processes, to modify or enhance its operational processes and procedures to help mitigate these types of errors by June 2020.

USAC will conduct a fraud risk assessment of USF-S&L consistent with GAO fraud risk guidelines.

USF-RHC

USAC has communicated to RHC Program participants the standards by which they must calculate and document the rural and urban rates they submit with their FCC Form 466 each year. Additionally, the FCC issued a Public Notice (DA-19-92) on February 15, 2019, reminding RHC Program participants of the standards for calculating these rates and the requirement for supporting documentation. USAC will continue communication via webinars, newsletters, and one-on-one sessions. USAC's Rural Health Care

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[7] *See In the Matter of Lifeline and Link Up Reform and Modernization et al.,* WC Docket No. 11-42 et al., Third Report and Order et al., FCC 16-38, para. 409 (2016) (*2016 Lifeline Reform Order*).

Program team has implemented an enhanced Program Integrity Assurance review, which more effectively applies the standards and will reduce improper payments. The Rural Health Care Program has included multiple corrective actions that will be taken to reduce fraud waste and abuse including outreach approaches to address common audit findings and the invoice documentation review process. Outside of the outreach efforts, Rural Health Care has engaged a consulting firm to conduct an operational assessment and system requirement analysis. USAC will use the firm's recommendations to improve the business process, which may reduce fraud, waste and abuse. Along with the outreach efforts, the operational assessment should continue our proactive approach to reduce fraud, waste and abuse in all of the Rural Health Care's activities.

On August 1, 2019, the Commission adopted a Report and Order that streamlines the process to determine urban and rural rates that are used to calculate RHC Telecommunications (Telecom) Program support and strengthens safeguards to protect the RHC Program from waste fraud and abuse. The reforms adopted by the Commission reduce the incentives ingrained in the Telecommunications (Telecom) Program's rules that encourage waste, fraud, and abuse and establish procedural mechanisms to discourage the same. For instance, the Commission modified the rules for determining the urban and rural rates and directed USAC to create a publicly available database that will publish the urban rates that RHC Program participants must use to request Telecom Program support and the maximum rural rate that RHC Program participants may use absent a waiver granted by the Commission. As a result of these changes, which go into effect in funding year 2021, improper payments based on failures by RHC Program participants to substantiate urban and rural rates should be substantially eliminated.

USAC will perform additional outreach to remind the applicants and service providers that USAC may only be invoiced for services actually delivered and the amounts on the customer bills must match the dates of service that were submitted and approved on the FCC Form 467 and the amounts that were approved in the Funding Commitment Letter (FCL). USAC will also remind applicants and service providers that they must notify USAC of any changes to the recurring costs and/or dates of service over the course of the commitment so that the commitment amount may be properly adjusted. USAC is also investigating potential implementation of new processes to review invoice documentation such as reviewing a select sample of invoices at the operational level prior to disbursement.

Furthermore, USAC plans to enhance its outreach approach regarding the common findings, including enhancing website training materials, webinars, and communicating best practices based on the observations made from the PQA findings. Beginning in the last quarter of calendar year 2019, part of USAC's Rural Health Care program team will reassess the current operational procedures in areas with audit findings, implementing any further mitigation measures as needed.

USAC will conduct a fraud risk assessment of USF-RHC consistent with GAO fraud risk guidelines.

II. Recapture of Improper Payments Reporting

The Commission performed payment recapture audits on all programs. For those programs for which improper payments were identified, the Commission has either recovered or is in the process of recovering the payments. All improper payments are 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, reassessing existing operational procedures, strengthening internal controls, or improving an existing rule.

USF-Admin

A total of $3,266 in improper payments were identified in FY 2019 related to corporate credit card use. USAC considers it improper to use corporate credit cards for payment of expenses unrelated to customary and reasonable expenses incurred on behalf of USAC while performing authorized business activities. USAC's expense policy requires that an expense report indicating that the charge was a personal expense be submitted within two weeks of incurring the charge. Nonbusiness-related expenses incurred on a corporate credit card are deducted immediately from the employee's next paycheck. USAC has recovered all of the $3,266 related to improper corporate credit card use. The Commission will work with USAC to avoid a repeat of this issue. The Commission continues to identify USF-Admin as not susceptible to significant improper payments.

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

USAC has completed 78 audits in FY 2019; 58 of those audits involved overpayments. Of the audits with overpayments, the auditors identified $11,118,004 for recovery. Below is a summary chart that provides the total number of audits performed and the estimated recovery amounts, by program for FY 2019:

Program / Area	# Audits	# Audits with Overpayments	Total Estimated Amount to be Recovered
USF-HC	13	9	$8,898,887
USF-S&L	35	22	$1,170,158
USF-LL	28	25	$1,023,487
USF-RHC	2	2	$25,472
Total	**78**	**58**	**$11,118,004**

TRS

During FY 2019, Rolka Loube LLC (RL) conducted TRS Internet-based Certification Application audits, in alignment with the requirements in 47 C.F.R. § 64.606(a)(2). The scope of the audit for this year included five audits of service providers. The audits covered the period of July 1, 2018 through June 30, 2019. Across the audits of the five service providers, RL reported in its draft audit reports that the service providers did not properly register users of the TRS program according to applicable Commission rules. At this point, RL has provided information to the Commission on this issue, and the Commission is currently discussing the best course of action for moving forward. Once the Commission has determined the final action, it will determine appropriate corrective actions to resolve these audit findings.

North American Numbering Plan (NANP)

In FY 2019, Welch conducted an audit of the NANP fund to determine whether any improper payments were made. The audit did not identify any improper payments, and the Commission continues to identify this program as not susceptible to significant improper payments.

FCC Operating Expenses

In FY 2019, the FCC conducted a payment recapture audit of its FY 2019 operating expenses of $437 million. The FCC randomly selected 55 non-salary expenditures totaling $122,068,281 for review. The FCC also randomly selected 50 payments totaling $242,056 in salary expenditures for review. The FCC selected the samples from the time period of October 1, 2018 to June 30, 2019. This review did not identify any improper payments, and the Commission continues to identify this program as not susceptible to significant improper payments.

TV Broadcaster Relocation Fund (TVBRF)

In FY 2019, the Commission used an independent contractor to test the Commission's processes and controls associated with payments from the TVBRF to eligible entities to identify any evidence of improper payments. A sample of 75 payments was randomly selected. The testing by the independent contractor did not identify any evidence of improper payments within their sample. While there were no improper payments identified in the sample, the contractor recommended that there are areas where adherence to process and documentation should be improved. The Commission is committed to improving our processes to resolve these recommendations.

In addition to the testing of payments described above, the Commission performed additional procedures to identify any potential improper payments, and through these reviews, the Commission identified improper payments totaling $491,187. The Commission has recovered most of these improper payments and is in the process of recovering the remaining portion in the near future.

Improper Payment Recapture with and without Audit Programs

In Table 3 below, the FCC reports the amounts identified in the FY 2019 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 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 2019, regardless of the period an audit covered or when the overpayment occurred.

The targets for USF-Admin, FCC, NANP, TRS and TVBRF are "not applicable" because no audit findings were identified through payment recapture audits. 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 vary annually. Moreover, participants may appeal multiple times at different levels of the process (e.g., to USAC and then to the FCC's Wireline Competition Bureau). As such, it is unlikely that all identified overpayments can be recovered within the same fiscal year that the overpayments are identified.

The FCC and USAC have identified potential instances of non-compliance with Commission rules by USF-S&L, USF-LL, and USF-RHC service providers. These instances of non-compliance may result in improper payments. Since these potential instances of non-compliance are still under investigation, any resulting impacts on improper payments have not yet been determined. Potential improper payments that are still under investigation are considered "questioned costs" and are not reported in Table 3 below in accordance with OMB Circular A-123 requirements.[8]

[8] *See Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement,* M-18-20, Part I.A.1 (2018).

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

	Contracts			Benefits			Total					
	Overpayment Recaptured through Payment Recapture Audits									Overpayments Recaptured Outside of Payment Recapture Audits		
Program or Activity	Amount Identified	Amount Recaptured	CY Recapture Rate	Amount Identified	Amount Recaptured	CY Recapture Rate	Amount Identified	Amount Recaptured		Amount Identified	Amount Recaptured	CY Recapture Rate
USF- HC	N/A	N/A	N/A	$8.90	$0.53	5.96%	$8.90	$0.53		$0.25 [9]	$0.33	132.00%
USF-S&L	N/A	N/A	N/A	$1.17	$2.28	194.87%	$1.17	$2.28		$32.83 [10]	$7.22	21.99%
USF-LL	N/A	N/A	N/A	$1.02	$0.14	13.73%	$1.02	$0.14		$14.06 [11]	$2.05	14.58%
USF-RHC	N/A	N/A	N/A	$0.03	$0.03	100.00%	$0.03	$0.03		$5.17 [12]	$1.12 [13]	21.66%
USF-Admin	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		$0.00 [14]	$0.00	100.00%
FCC	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		$0.12 [15]	$0.00	0.00%
NANP	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		$0.00	$0.72 [16]	N/A
TVBRF	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A		$0.49	$0.34	69.39%
Total	N/A	N/A	N/A	**$11.12**	**$2.98**	**26.80%**	**$11.12**	**$2.98**		**$52.92**	**$11.78**	**22.26%**

[9] The USF-HC Amount Identified Outside of Payment Recapture Audits includes an incorrect payment due to a processing error.

[10] The USF-S&L Amount Identified Outside of Payment Recapture Audits includes system errors where edit checks and validations were not designed to prevent improper payments.

[11] The USF-LL Amount Identified Outside of Payment Recapture Audits includes results from USAC's analysis to identify and recover for deceased, ineligible, and oversubscribed subscribers.

[12] The USF-RHC Amount Identified Outside of Payment Recapture Audits includes incorrect payments to ineligible providers, as well as a settlement between the Commission and the acquiring company of a service provider for instances of non-compliance on behalf of the service provider.

[13] The USF-RHC Amount Recaptured Outside of Payment Recapture Audits includes $0.50 million recaptured related to the settlement discussed above. The Department of Justice received $0.015 million of this amount for their role in supporting the settlement.

[14] The USF-Admin Amount Identified Outside of Payment Recapture Audits include $3,266 paid with a USAC corporate card that were deemed not for USAC business related activities.

[15] The FCC Amount Identified Outside of Payment Recapture Audits represents duplicate processing of 1,806 hours worked by 38 employees during the lapse in appropriations in FY 2019 as a result of a misunderstanding between the FCC and the National Finance Center, which processes FCC payroll. The FCC will collect these overpayments in full.

[16] The Commission entered into a consent decree in February 2017 with a TRS provider and its parent company to resolve pending enforcement matters. At the time, $1 million was identified and still outstanding. To date, the Commission has recaptured $722,518.44 through monthly installments.

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

Program or Activity	Amount Recovered *(This amount will be identical to the "Amount Recaptured" in Table 3)*	Type of Payment *(contract, grant, benefit, loan, or other)*	Original Purpose
USF-HC	$0.53	Benefit	$0.53
USF-S&L	$2.28	Benefit	$2.28
USF-LL	$0.14	Benefit	$0.14
USF-RHC	$0.03	Benefit	$0.03
USF-Admin	N/A	N/A	N/A
FCC	N/A	N/A	N/A
NANP	N/A	N/A	N/A
TRS	N/A	N/A	N/A
TVBRF	N/A	N/A	N/A
Total	**$2.98**		**$2.98**

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

Program or Activity	Type of Payment *(contract, grant, benefit, loan, or other)*	Amount Outstanding (0 – 6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectable *(include justification in Payment Recapture Narrative)*
USF-HC	Benefit	$0.59	$8.29	$4.20	$0.00
USF-S&L	Benefit	$1.08	$0.09	$53.61	$0.00
USF-LL	Benefit	$0.21	$0.70	$1.67	$0.00
USF-RHC	Benefit	$0.00	$0.00	$1.26	$0.00
USF-Admin	N/A	N/A	N/A	N/A	N/A
FCC	N/A	N/A	N/A	N/A	N/A
NANP	N/A	N/A	N/A	N/A	N/A
TRS	N/A	N/A	N/A	N/A	N/A
TVBRF	N/A	N/A	N/A	N/A	N/A
Total		**$1.88**	**$9.08**	**$60.74**	**$0.00**

III. Agency Improvement of Payment Accuracy with the Do Not Pay Initiative

FCC

Pursuant to the Do Not Pay (DNP) Initiative, the FCC has incorporated the use of the DNP databases and continuous monitoring into the FCC's existing business processes. Each month, the FCC generates an updated vendor file to be placed on the U.S. Treasury's server. This file is matched with the Death Master File (DMF) of the Social Security Administration List of Excluded Individuals and Entities (LEIE), Office of Foreign Assets Control (OFAC), and the System for Award Management's (SAM) Entity Registration and Exclusion Records. If any payments are stopped, the FCC will research the item and contact the vendor. Also, when there is a positive match, the FCC will tell the vendor to contact Treasury for details regarding the stopped payment. If the match is a false positive, the FCC will submit an adjudication report to Treasury.

USF

USAC generates an updated vendor file to be placed on the U.S. Treasury's server. This file is matched with the DMF, LEIE, OFAC, and SAM. If any payments are stopped, USAC will research the item and contact the vendor. Also, when there is a positive match, USAC will direct the vendor to contact Treasury for details regarding the stopped payment. If the match is a false positive, USAC will submit an adjudication report to Treasury.

TRS

RL frequently sends a master vendor file to the U.S. Treasury for comparison with data such as OFAC, SAM, and the Treasury Offset Program (TOP) Debt Check. Additionally, with the DNP portal, TRS uses two functions in order to reduce improper payments: batch matching and online single sign-on. RL uses the DNP portal prior to payment and award.

IV. 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.

V. Accountability

USAC, in conjunction with the FCC, has implemented a strategic management framework with objectives at the corporate, division, and program levels. USAC has established strategic initiatives that will contribute to the achievement of those objectives, including initiatives that address efficient and effective program execution with an emphasis on program integrity and outcomes. USAC continues to utilize an enterprise-wide risk register to track risks that may prevent the successful achievement of the corporate objectives. The goal of USAC's 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 achieving project, program, and strategic objectives. Any major risk that may impact strategic initiatives is escalated and reported to USAC's senior leadership. Regularly providing managers and decision-makers with timely feedback allows leadership to make course corrections to achieve USAC's strategic objectives. In addition, USAC has established leadership councils for each of the USF programs as well as integrated project teams for strategic projects. USAC employs operational meetings to review performance of program objectives and progress of strategic projects. USAC, in consultation with the FCC, defines performance metrics that are routinely reported to USAC's senior leadership and relevant leadership councils. Both the leadership council and operational meetings provide an opportunity to analyze and respond to identified changes and related risks to maintain an effective internal control system as well as effective enterprise systems management.

VI. 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, information technology system enhancements were identified and deployed to improve operational efficiency and reduce improper payments. Several enhancements were implemented to accurately calculate program timelines associated with establishing the service start date, service delivery date, and invoice deadline date. Furthermore, in the case of USF-LL, the FCC's FY 2016 *Lifeline Order* directed USAC, in cooperation with the FCC, to establish an external third-party verifier – the National Verifier. Prior to the National Verifier, service providers were required to verify the eligibility of prospective Lifeline subscribers. USAC is using a phased approach to roll out the National Verifier. When the National Verifier is fully implemented, it will determine program eligibility for subscribers in all U.S. states and territories. The National Verifier has fully launched in thirty-eight states and territories, and the National Verifier is expected to be launched in all remaining states and territories by the end of calendar year 2019. ETCs in the thirty-eight states and territories where the National Verifier has fully launched are required to use the National Verifier to make eligibility determinations for all consumers applying for Lifeline service. The FCC and USAC expect the implementation of the National Verifier to assist in preventing improper payments.

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.

VII. Sampling and Estimation

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

In FY 2019, the Commission utilized statistical sampling methodology to estimate the annual amount of improper payments in the USF-HC, USF-S&L, USF-LL, and USF-RHC programs. This process, called the PQA assessment plan, tested disbursements made in calendar year 2018. The goal of the PQA assessment plan was to estimate an improper payment error rate based on non-compliance with the Commission rules. As approved by OMB, the PQA assessment plan was designed to extrapolate an improper payment error rate for each program as a whole. 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 in FY 2017. In FY 2019, the Commission used stratified simple random sampling to select a sample of monthly transactions from calendar year 2018. The sample consisted of 200 Study Area Codes out of a population of 1,608 that had disbursement totals of at least $900 in the calendar year 2018.

Assessments of calendar year 2018 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.

The estimated improper payment amount for USF-HC in FY 2019 is $650,000 with a margin of error of plus or minus $116,576. The estimated improper payment rate for FY 2019 is 0.01% with a margin of error of plus or minus 0.002%. The rate is obtained by dividing the improper payment amount by the actual total disbursements of $4.88 billion.

The Commission will be requesting relief in the high-cost program for FY 2020 per OMB M-18-20 due to the error rates being below the OMB threshold. The Commission is also internally re-baselining the program to better understand improper payments under this program.

USF-S&L

A baseline improper payment rate was established for USF-S&L in FY 2015. The Commission maintained the same stratified sampling design in FY 2019 that was used in the prior year, while also decreasing the overall sample size from 443 to 360 invoice lines. The separate ratio estimator was used for these estimates.

The FY 2019 procedures used for the assessments of calendar year 2018 transactions were similar to those in FY 2018. The FY 2019 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 estimated improper payment amount for USF-S&L in FY 2019 is $139.67 million with a margin of error of plus or minus $84.91 million. The improper 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 estimated improper payment rate for FY 2019 is 6.33% with a margin of error of plus or minus 3.85%. The rate is obtained by dividing the estimated improper payment (separate ratio estimator) amount by the actual calendar year 2018 disbursements of $2,206.08 million.

USF-LL

A baseline improper payment rate was established for USF-LL in FY 2017. In FY 2019, the Commission used stratified simple random sampling to select a sample of monthly transactions from calendar year 2018. The sample consisted of 278 Study Area Codes out of 1,680 that had disbursement totals of at least $900 in the calendar year 2018.

Assessments of calendar year 2018 transactions included: 1) steps to measure the accuracy of disbursements, including information on the FCC Form 497 or submitted through the Lifeline Claims System; 2) evaluation of carrier eligibility; and 3) testing of subscriber detail and certifications.

Three different classes of improper payments were identified in the sample of 278 disbursements.

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, and 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. 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 four 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 2019 is $108.92 million with a margin of error of plus or minus $12.52 million. The estimated improper payment rate for FY 2019 is 9.32% with a margin of error of plus or minus 1.07%. The rate is obtained by dividing the improper payment amount by the actual total disbursements of $1,168.11 million.

USF-RHC

A baseline improper payment rate was established for USF-RHC in FY 2019. In FY 2019, the Commission used stratified simple random sampling to select a sample of invoice lines from calendar year 2018. The sample frame consisted of 410 invoice lines that had absolute disbursement totals of at least $900 in the calendar year 2018.

The FY 2019 procedures included the following: 1) measuring the accuracy of payments; 2) evaluating program applicants' eligibility; 3) testing high-level information obtained from program participants; and 4) verifying service eligibility.

The estimated improper payment amount for USF-RHC in FY 2019 is $34.19 million with a margin of error of plus or minus $7.19 million. The estimated improper payment rate for FY 2019 is 11.46% with a margin of error of plus or minus 2.41%. The rate is obtained by dividing the improper payment amount by the actual total disbursements of $298.46 million.

TRS

The TRS Fund Administrator 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 2019 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 non-compliance with the Commission rules. The Commission is using an alternative sampling methodology because the Commission is continuing its 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 the Administrator to determine whether the billable 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, 2018 through June 30, 2019.

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 Relay, or Internet Protocol Captioned Telephone Service (CTS) providers who did not submit a complete Speed of Answer (SOA) report.
3. Payments are made to VRS, Internet Protocol Relay, or Internet Protocol CTS providers for days where the SOA daily performance standards are not met.
4. TRS Funds are disbursed without proper authorization from the Administrator to the bank and/or amounts do not reflect the approved rate.
5. Payments are made to VRS, Internet Protocol Relay, or Internet Protocol CTS providers when Call Detail Records (CDRs) do not contain the required information in the required format.
6. Payments are made to VRS, Internet Protocol Relay, or Internet Protocol 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 completion of these tests, the TRS program was determined to have an improper payment rate of 0.15% for FY 2019. 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.

The Commission will be requesting relief in the TRS programs for FY 2020 per OMB M-18-20 due to the error rates being below the OMB threshold. The Commission is also internally re-baselining the program to better understand improper payments under this program.

VIII. Risk Assessment

The FCC 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 (TRS)
- North American Numbering Plan (NANP)
- FCC Operating Expenses (FCC)
- TV Broadcaster Relocation Fund (TVBRF)

From the programs listed above, the Commission previously identified the USF-HC, USF-S&L, USF-LL, USF-RHC, and TRS programs as susceptible to significant improper payments. In FY 2019, pursuant to Appendix C, which requires a risk assessment once every three years for programs not susceptible to significant improper payments (or periodically if significant changes occur), the Commission conducted risk assessments of the USF-Admin, FCC, TVBRF, and NANP programs. These programs all continue to be assessed as low risk.

In conducting its risk assessment analysis, the Commission used the methodology described in Appendix C. Specifically, the Commission reviewed any quantitative data that would indicate a risk of significant improper payments that would exceed: both 1.5% of program outlays and $10 million of all program or activity payments made during FY 2019, or $100 million of improper payments (regardless of the improper payment percentage of total program outlays). In addition, the Commission analyzed each program's risk by taking into account all the factors identified in Appendix C.

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 reduction 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 controls evaluation. The FCC implemented this improvement both at the FCC and at its reporting components, which assist the FCC in managing the funds the FCC has the authority to oversee, including USF, TRS, and NANP.

The FCC's 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 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 in alignment with the Enterprise Risk Management framework for the Commission.

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 USF and TRS, as well as functions related to auctions, contracts, financial operations, human resources, and information technology. 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. Also, the Commission has started tracking the fraud risk remediation to hold the Commission's managers accountable for their particular responsibilities. The FCC's Senior Management Council meets quarterly to identify risk, propose corrective actions, remediate the risks, and map out risk that may affect the Commission going forward. Finally, the FCC's Enforcement Bureau (EB) and OIG also coordinate with relevant Commission Bureaus and Offices, as well as 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, the FCC has updated the entity level risk assessment process to include 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 require entities to evaluate the risks that they are facing, including fraud risk, 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 in order to prevent and deter fraud and reduce or prevent improper payments in its programs. 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, and
- Testing of payments to USF and TRS beneficiaries as well as testing of FCC operating expenses,

including payroll and contract payments.

Utilizing this information, the FCC is able to incorporate an enterprise level view of the fraud risks into its operations as well as those facing the USF, TRS, and NANP funds.

Annually, 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 move towards the problem, make course corrections, 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. Recently the FCC has also been working to develop a data-analytics tool to help detect fraud in the USF programs, and in August 2019, the FCC officially launched a new Fraud Division within the EB to focus on fraud in the USF programs.

Although the Commission has made improvements in its fraud risk efforts, there are still many areas for improvement. Some of these improvements include but are not limited to the following: 1) dedicating an entity to manage fraud risk activities, 2) conducting fraud risk assessments at regular intervals and determining the fraud risk profile, and 3) designing and implementing an antifraud strategy. The Commission is dedicated to standing up a fraud risk working group separate from the ERM risk management group to increase the maturity level of its current fraud risk efforts. The Commission also understands implementing an effective fraud risk management process is important in helping to ensure its programs fulfill their intended purpose and goals. The Commission will continue to work beyond its current processes and raise the maturity level of its fraud risk efforts to align better with best practices in this area.

USF

During the course of conducting audits or PQA reviews, and also potentially through whistleblower complaints, USAC may identify instances of potentially fraudulent activity. Any such instances are reported to USAC's Office of General Counsel (OGC), which collects information about the potentially fraudulent activity. USAC's OGC provides this information to the Commission's EB and OIG. The FCC will investigate and provide direction to USAC for recovery of USF support, if warranted.

On January 30, 2018, the Commission issued a Notice of Apparent Liability (NAL) for Forfeiture and an Order to a company for potential competitive bidding violations and forged, false, misleading, and unsubstantiated information related to the USF-RHC. In the NAL, the Commission identified a total proposed forfeiture penalty of $18.72 million, which included a potential improper payment of $2.15 million. Subsequent to issuance of the NAL, the company filed for chapter 11 bankruptcy and its assets were sold to another company. On March 20, 2019, the Commission entered into a settlement agreement by which acquiring company agreed to pay $1.50 million to settle the Commission's claim.

Because a settlement was reached in FY 2019, the potential improper payment identified in the NAL is no longer a "questioned cost" and must be reported as an FY 2019 improper payment in accordance with OMB A-123 requirements.[17] Thus, $2.15 million is recognized as an FY 2019 improper payment for USF-RHC in "overpayments recaptured outside of payment recapture audits." USAC has recaptured $0.50 million of this improper payment. The Department of Justice received $0.015 million of the recaptured amount for their role in supporting this settlement.

TRS

RL has various fraud prevention measures in place with regards to improper payments to providers. In addition, RL hired a certified fraud examiner who reviews CDR submissions and payments for potentially

[17] *See Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement,* M-18-20, Part I.A.1 (2018).

fraudulent activity and anomalies within the data submitted by the providers or data compiled by RL staff to generate distribution requests for reimbursement. Also, the RL senior internal advisory council, which is comprised of executive level employees, a third-party risk assessor, and a subcontractor, meets annually to review the TRS risk assessment performed as well as outline the expectations for the upcoming service period. The internal RL risk assessment policy is reviewed annually at these meetings as well.

Other payments from the TRS fund follow a similar process as that outlined above, the only difference being that the Red-Light Verification report is not necessary for non-FCC registered vendors. No confirmed fraud has been identified in this program for the FY 2019 reporting period.

Schedule of Civil Monetary Penalties

On November 2, 2015, 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, was signed into law. 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 required agencies use an interim final rulemaking (IFR) to adjust the level of civil monetary penalties in 2016 with an initial "catch-up" adjustment. The 2015 Act also requires agencies to continue to make annual inflation adjustments in future years and to report on these adjustments annually.

On December 14, 2018, OMB provided its annual inflation adjustment update to agencies through OMB Memorandum M-19-04, *Implementation of Penalty Inflation Adjustments for 2019*. On December 19, 2018, the FCC's Enforcement Bureau adopted and released an order, DA-18-1272, which adjusted the Commission's forfeiture penalties for inflation for 2019.

The following table shows various civil monetary penalties that may be used by the Commission in carrying out its mission as well as additional information about the FCC's statutory authority for these penalties and the location of the FCC's most recent action to adjust these penalties for inflation.

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	2019	Up to $3,759,410	Enforcement Bureau (EB)	Federal Register 84 No. 26 (February 7, 2019): 84 FR 2461. https://www.govinfo.gov/app/details/FR-2019-02-07/2019-01056 https://www.fcc.gov/document/annual-adjustment-civil-monetary-penalties-reflect-inflation
47 U.S.C. 202 (c)	Discrimination	1989	2019	$12,081 $604/day	EB	Same as above
47 U.S.C. 203 (e)	Schedules of Charges	1989	2019	$12,081 $604/day	EB	Same as above
47 U.S.C. 205 (b)	Commission Charges	1989	2019	$24,160	EB	Same as above
47 U.S.C. 214 (d)	Extension of lines	1989	2019	$2,415	EB	Same as above
47 U.S.C. 219 (b)	Annual Report	1989	2019	$2,415	EB	Same as above
47 U.S.C. 220 (d)	Failure to maintain records	1989	2019	$12,081	EB	Same as above
47 U.S.C. 223 (b)	Obscene/ harassing telephone calls	1983	2019	$125,190	EB	Same as above

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
47 U.S.C. 227 (e)	Telephone equipment restrictions	2010	2019	$11,562/violation $34,686/day for each day of continuing violation up to $1,156,242 for any single act or failure to act	EB	Same as above
47 U.S.C. 364 (a)	Radio on board ships – Forfeitures	1989	2019	$10,067	EB	Same as above
47 U.S.C. 364 (b)	Radio on board ships - Forfeitures	1989	2019	$2,014	EB	Same as above
47 U.S.C. 386 (a)	Radio on board ships - Forfeitures	1989	2019	$10,067	EB	Same as above
47 U.S.C. 386 (b)	Radio on board ships - Forfeitures	1989	2019	$2,014	EB	Same as above
47 U.S.C. 503 (b)(2)(A)	Penalty provisions	1989	2019	$50,334/violation or each day of a continuing violation up to $503,349 for any single act or failure to act	EB	Same as above
47 U.S.C. 503 (b)(2)(B)	Penalty provisions	1989	2019	$201,340/violation or each day of a continuing violation up to $2,013,399 for any single act or failure to act	EB	Same as above
47 U.S.C. 503 (b)(2)(C)	Penalty provisions	2006	2019	$407,270/violation or each day of a continuing violation up to $3,759,410 for any single act or failure to act	EB	Same as above
47 U.S.C. 503(b)(2)(D)	Penalty provisions	1989	2019	$20,134/violation or each day of a continuing violation up to $151,005 for any single act or failure to act	EB	Same as above
47 U.S.C. 503(b)(2)(F)	Penalty provisions	2010	2019	$115,624/violation or each day of a continuing violation up to $1,156,242 for any single act or failure to act	EB	Same as above
47 U.S.C. 507 (a)	Payment disclosure	1954	2019	$1,994	EB	Same as above
47 U.S.C. 507 (b)	Payment disclosure	1954	2019	$292	EB	Same as above
47 U.S.C. 554(f)	Equal employment opportunity	1992	2019	$892	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 18, 2019

TO: Chairman Ajit Pai
Commissioner Michael O'Rielly
Commissioner Brendan Carr
Commissioner Jessica Rosenworcel
Commission Geoffrey Starks

FROM: Inspector General FOR RM

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 2020 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.

<u>Information Security</u>

The FCC continues to undertake significant information technology (IT) initiatives that support FCC *Strategic Objective 4.3: Effectively manage and modernize the FCC's information technology, financial, record keeping, facilities and human capital 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 contingency planning. However, significant work is needed before FCC achieves compliance with the Federal Information Security Modernization Act (FISMA). The FY 2019 FISMA evaluation report identified two significant deficiencies in IT security - identity and access management, and information security continuous monitoring. These significant deficiencies represent repeat or updated findings and recommendations identified in prior year

FISMA evaluations. Two of the most significant recommendations repeated from prior years are related to implementation of HSPD-12 PIV cards for logical access, and installation of patches and remediation of vulnerabilities within the required timeframes. Also, the FY 2019 FISMA evaluation report identified four control deficiencies in risk and configuration management, data protection and privacy, and incident response. Balancing implementation of information technology initiatives with vigilance to improve compliance in 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), consisting of support mechanisms for: l) 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 in gaining 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 Fund programs.

Within *Strategic Goal 1: Closing the Digital Divide, FCC has recognized the need 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. Where the business case for infrastructure investment doesn't exist, employ effective and efficient means to facilitate deployment and access to affordable broadband in all areas of the country*.

Strategic Objective 1.1 seeks to Expand broadband deployment in all parts of the country, including hard-to-serve areas, rural areas, and Tribal lands, and reduce the digital divide across America by creating a light-touch regulatory environment that maximizes private sector investment in broadband.

The Commission's efforts supporting this objective include FCC's comprehensive reforms in the USF programs (e.g., implementation of the Connect America Fund) will require a significant investment of Commission resources, as well as effective USAC administration of Fund programs. Establishing direction and policy, managing transition, and ensuring that all USF program rules and regulations foster effective and efficient programs are significant management challenges.

High Cost Program

The USF High Cost program provides $4.5 billion 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 its support to multi-purpose networks capable of broadband and voice services, while phasing out support for voice-only networks. During this transition, the High Cost program will utilize separate support mechanisms for the legacy High Cost program and 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 a more 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 developed an information system, the High Cost Universal Broadband Portal (HUBB), to help USAC management determine if carriers meet 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 displays 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 was not fully operational until FY 2019, there is risk that carriers did not meet their obligation to provide high-speed broadband to specific underserved locations by the required program milestones. In its response to OIG's 2018 Management and Performance Challenges, FCC stated that USAC will independently verify a sample of reported locations each year and monitor carrier's compliance with their deployment milestones. Continued oversight and monitoring are necessary to ensure carriers do, in fact, comply with the Program's deployment milestones.

Schools and Libraries (E-rate) Program

In Funding Year 2018, the Schools and Libraries program, often called E-rate, received over 35,000 applications from schools and libraries nationwide and provided over $2.1 billion in program support to eligible entities. Effective in 2015, the Commission's two E-rate Modernization Orders 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 orders also 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.

OIG and USAC audits and investigations continue to identify several risks to the E-rate program that continue to be management challenges:

- Missing or inadequate documentation to demonstrate compliance with FCC rules;
- Entities providing false documentation to USAC in response to document requests to support applications or invoices;
- Invoicing of the Fund for ineligible products or services;
- Potential conflicts of interest in the competitive bidding process;
- Inadequate documentation to substantiate compliance with competitive bidding rules;
- Service Provider billing inaccuracies; and
- Insufficient Children's Internet Policies[1].

[1] Schools and libraries subject to Children's Internet Protection Act (CIPA) may not receive the discounts offered by the E-rate program unless they certify that they have an Internet safety policy that includes technology protection measures to block or filter Internet access to pictures that are: (a) obscene; (b) child pornography; or (c) harmful to minors (for computers that are accessed by minors).

Lifeline Program

The FCC and USAC must continue to devote significant resources to combat waste, fraud and abuse in the Lifeline program. The Commission reformed the Lifeline program in 2012 and 2016 to require stricter oversight, including promulgating changes to the ways service providers must confirm consumer eligibility. The 2016 Lifeline Reform Order also proposed significant changes to the administration of the program, however, some of those reforms have not 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 OIG investigations have been or are being prosecuted by the U.S. Department of Justice and several have already resulted in criminal and civil sanctions against Eligible Telecommunications Companies (ETCs) and their agents. The FCC must continue to ensure adequate resources are dedicated to identifying new forms of fraud as the program evolves. Audits and Investigations have identified the following ongoing risks for the Lifeline program:

- ETCs lack proof of eligibility for subscribers to receive Lifeline service;
- Subscribers receive duplicate service from multiple ETCs;
- ETCs and their agents enroll ineligible and even phantom subscribers;
- ETCs or their agents continue to attempt to enroll already-deceased individuals;
- ETCs fail to timely de-enroll subscribers who no longer qualify, who are not using the service, or have switched to another Lifeline carrier; and;
- ETC failure to adequately supervise sales agents and continued use of commission-based compensation that incentivizes fraud.

USAC has several initiatives in process that should, over time, improve its Lifeline program controls. USAC has begun implementing the Lifeline National Eligibility Verifier (National Verifier), which will be completely operational by the end of 2019. Continued, expeditious implementation of the National Verifier in all jurisdictions is essential to ensure it effectively serves to safeguard the integrity of the Lifeline Program. While the National Verifier will assist USAC in verifying the subscriber enrollment information provided by ETCs and their agents, the FCC and USAC must ensure ETCs and their agents continue to monitor enrollments and provide authentic subscriber information to the National Verifier to eliminate fraudulent enrollments. Moreover, the Agency and USAC must monitor National Verifier enrollment attempts to identify ETCs and their agents who may attempt to circumvent these added safeguards. Of equal importance, the FCC and USAC need to regularly reiterate that ETCs and their agents will continue to be held responsible for fraudulent enrollments regardless of whether the enrollment evades the Verifier's safeguards.

USAC is also implementing Representative Accountability Database (RAD), an agent accountability database that will require all individuals who enroll Lifeline subscribers to verify their identity and register with USAC to receive a representative ID. The FCC must ensure RAD fulfills its purpose by identifying agents who attempt fraudulent enrollments of subscribers – those agents should be blocked from future enrollment activity. Ensuring these and other Lifeline program initiatives the FCC is contemplating have their intended effect remain significant management and performance challenges.

Rural Health Care Program

The Rural Health Care (RHC) program, while previously underfunded since its inception, reached its $400 million annual funding cap in 2016. The current program funding is $571 million. Although OIG investigators have seen evidence of millions of dollars of fraud in recent years, they have been unsuccessful in their attempts to prosecute these matters either civilly or criminally. It was the view of several US attorneys that RHC cases are fraught with problems and thus too risky to pursue, citing the difficulty in applying arguably ambiguous Commission rules and low dollar amounts (under $1 million) as obstacles. The lack of the “fair and open” standard specifically contained and stated in the RHC rules, along with the lack of a direct prohibition on being both the service provider and consultant in a transaction, led to the difficulty in establishing the requisite *scienter* necessary to prove fraud in investigations. Furthermore, the absence of any other bids in response to the Form 465 hindered our ability to prove harm. On August 1, 2019, the Commission adopted *Promoting Telehealth in Rural America*, Report and Order – WC Docket No. 17-310. The Report and Order aims to improve competitive bidding, by adding the “fair and open” standard into the RHC Program. It also implemented rules prohibiting service providers who intend to bid on supported services from assisting an applicant in completing the request for proposal or request for services form, and prohibiting a service provider who has submitted a bid from evaluating bids or choosing a winning bidder. Nevertheless, effective enforcement of these new rules and existing rules, as well as general oversight of the program, remains a significant management challenge.

Compliance with Improper Payments Elimination and Recovery Improvement Act (IPERIA)

The OIG’s 2018 Improper Payments Elimination and Recovery Improvement Act (IPERIA) audit found that the Lifeline program was non-compliant with the improper payment reporting requirements. Specifically, the estimated gross improper payment rate for the Lifeline program exceeded the OMB statutory limit of less than 10 percent of the program's gross outlays. The audit reported that the estimated gross improper payments for the Lifeline program was $336.39 million per year and the improper payment rate was 18.47 percent. Accordingly, FCC management reported that Lifeline improper payments were 8.47 percent above the OMB threshold.

The IPERIA audit also found that the Universal Service Fund (USF) High Cost program was non-complaint with the improper payment reporting requirements. Specifically, the audit found that USAC’s Payment Quality Assurance (PQA) program and its sampling estimation methodology did not adequately reflect the changing characteristics of the USF High Cost Program resulting from the implementation of the FCC Transformation Order. In addition, the USF High Cost program estimated improper payment rate published in FCC’s FY 2018 AFR did not adequately reflect the significant risks of improper payment in the program. Ensuring that the Commission is compliant with the requirements of IPERIA is considered a significant management challenge.

TV Broadcaster Relocation Fund

The Commission held an incentive spectrum auction in April 2017, to help improve and expand wireless services across the country and meet the needs of American consumers for faster, higher capacity mobile broadband services. The TV Broadcaster Relocation Fund was established by the *Middle Class Tax Relief and Job Creation Act of 2012 (Spectrum Act of 2012)* to reimburse costs reasonably incurred by broadcasters who are being relocated to new channels because the broadcast spectrum was repacked as a result of the 2017 incentive auction. The Commission determined that 957 stations, as well as multichannel video programing distributors, are eligible for reimbursement from the fund for costs incurred as a result of the repacking process.

The initial funding authorized by Congress for the reimbursement costs under the Spectrum Act of 2012 was $1.75 billion. In FY 2019, the *RAY BAUM'S Act* expanded the eligible providers to include additional broadcasters and increased the authorized funding by $600 million in FY 2018 and another $400 million in FY 2019. Thus, the total amount authorized for the fund is now $2.75 billion.

The Commission and its fund administrator, Ernst and Young, have taken actions to establish internal controls and minimize risk to ensure the best use of resources. The fund is now in the reimbursement phases[2] where the greatest costs are expected to be incurred, based on the volume of stations transitioning. Therefore, it is imperative that the Commission and the fund administrator continue their efforts to closely monitor internal controls and address any identified deficiencies to ensure that risk is appropriately managed and protect the TV Broadcaster Relocation Fund against waste, fraud, and abuse during the reimbursement phases.

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

[2] Phases pertain to the number of television stations that will seek reimbursements for cost incurred to relocate their operations from their existing channel to the channel assigned to them in the post-incentive auction repacking process.

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

Office of the Managing Director

M E M O R A N D U M

DATE: November 19, 2019

TO: David L. Hunt, Inspector General

FROM: Mark Stephens, Managing Director;
Jae Seong, Chief Financial Officer
John Skudlarek, Acting 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 18, 2019, assessing the most serious management and performance challenges facing the Federal Communications Commission (Commission or FCC) for fiscal year (FY) 2019 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 identifies the FCC's initiatives to leverage new technologies (*e.g.*, cloud computing) to support *FCC Strategic Objective 4.3: Effectively manage and modernize the FCC'S information technology, financial, record keeping, facilities and human capital resources to best achieve the FCC's mission*. OIG states that "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 FCC Information Technology (IT) Group acknowledges this challenge and remains committed to balancing new technologies with a federally mandated information security program. For example, as the FCC continues to leverage new cloud technologies to support its mission and business functions, the FCC IT Group ensures that compliance with security is included in the development, operation, and maintenance of the cloud technology that is being implemented. The FCC IT Group requires that all Cloud Service Providers (CSP) are either: (1) compliant with Federal Risk and Authorization Management Program (FedRAMP); (2) in the process of achieving FedRAMP compliance; or (3) sponsored by the FCC. Doing so ensures that security controls are incorporated into the CSP before it goes live in production on the FCC network.

It is also a priority of the FCC IT Group to modernize the FCC's legacy systems to reduce their operational costs and improve their cybersecurity posture. Consistent with this goal, in FY 2019, the FCC IT Group closed 100 percent of the OIG Website Assessment recommendations and 23 percent of Federal Information Security Modernization Act (FISMA) audit recommendations. The FCC IT Group is implementing corrective action plans to remediate its existing FISMA findings in FY 2020, which include: (1) identifying the best solution for multi-factor authentication that is compliant with Homeland Security Presidential Directive - 12 Personal

Identify Verification cards for logical access; and (2) implementing a three-year plan to obtain the Authority to Operate for all FCC systems. Included in this plan is the goal to remediate all delayed Plan of Action and Milestones by the end of FY 2020.

II. UNIVERSAL SERVICE FUND

OIG asserts that establishing direction and policy, managing transition, and ensuring all Universal Service Fund (USF) program rules and regulations foster effective and efficient programs are 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 challenges.

High-Cost Program. OIG states the "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 preserve and advance broadband and voice services to high-cost areas. As OIG notes, the Commission directed USAC to develop an online system (later named the High-Cost Universal Broadband (HUBB) Portal) to accept high-cost recipients' broadband deployment information to track carriers' progress towards their broadband deployment milestones and to provide a means to collect Connect America Fund (CAF) supported broadband deployment information for public distribution. OIG notes that because the HUBB was not fully operational until FY 2019, a risk exists that carriers did not meet their broadband deployment obligations by required program milestones. OIG maintains that continued oversight and monitoring are necessary to ensure carriers comply with the Program's deployment milestones.

Carriers participating in the modernized programs began submitting data into the HUBB in 2017, and for each subsequent year, must certify year-end reported broadband data by March 1. For example, CAF Phase II carriers have various broadband location reporting milestone obligations with 40 percent due by the end of 2017, 60 percent for 2018, 80 percent for 2019, and 100 percent for 2020. USAC performs verifications to determine whether carriers met the relevant deployment milestones. For the verification process, USAC selected locations to review based on a sampling plan which used Office of Management and Budget (OMB) Circular A-123 Appendix C "Sampling and Estimation" as a guide.

On October 9, 2018, the FCC's Wireline Competition Bureau announced that an interactive CAF Broadband Map (CAF Map) was available. The CAF Map illustrates eligible locations and the locations where fund recipients reported deployment, by both street address and latitude and longitude. In 2019, participants receiving CAF II Model, Alternative Connect America Cost Model (A-CAM) I, Rural Broadband Experiments (RBE), Alaska Plan, and CAF Broadband Loop Support (CAF-BLS) reported their deployment data in the HUBB. During the next filing window, the HUBB will collect location data for three additional funds: CAF II Auction, A-CAM II, and Revised A-CAM.

USAC annually reviews documentary evidence to verify that the fund recipients deployed qualifying broadband to the requisite number of locations by the relevant milestone deadlines. In 2018, the Wireline Competition Bureau, the Wireless Telecommunications Bureau, and the Office of Engineering and Technology established a uniform framework for measuring and reporting the speed and latency performance, as adopted by the Commission in the 2011 USF/ICC Transformation Order and subsequent orders, for recipients of high-cost universal service support to serve fixed locations. USAC is developing processes and systems to collect and review performance data at specific subscriber locations.

Additionally, USAC performs improper payment testing of High-Cost disbursements. For the legacy programs, USAC has developed a process to review the cost data used in the calculation of legacy High-Cost data. USAC also continues to audit carriers that receive High-Cost legacy support funds and is developing procedures to audit carriers that receive CAF support. The FCC continues to take action to ensure that High-Cost support is used for its intended purposes.

Schools and Libraries Program. OIG reports that both OIG and USAC audits and investigations continue to identify several risks to the Schools and Libraries Program (E-Rate) that continue to be management challenges. These risks were also identified by OIG in the *2017 and 2018 Management Challenges Memoranda* and the FCC's reply delineated actions taken to mitigate these risks.[1] The FCC remains committed to addressing these issues. Below are examples of efforts taken in 2019 to address these findings, in addition to those already underway.[2] To the extent OIG would like more information on the Commission's plan to remediate these risks, please contact the Managing Director.

Missing or inadequate documentation to demonstrate compliance with FCC rules. USAC reviews applications for E-Rate funding based on procedures approved by the FCC. During its application review, USAC's review team asks targeted questions and requests supporting documents to confirm compliance with FCC rules and program procedures. Schools, libraries, consortia, and service providers are required to produce such records at the request of any USAC representative (including any auditor). If an applicant or service provider does not respond to document requests or provides inadequate documents to determine compliance, USAC denies the applicant's funding request. To help reduce the risk of missing or inadequate documentation, USAC continues to utilize its annual applicant, tribal and service provider trainings to educate program participants on document retention requirements. Additional education is provided through USAC's "office hour" webinar series, which was launched in FY 2019.

Entities providing false documentation to USAC in response to document requests to support applications or invoices. Program participants are prohibited by federal law from submitting false information regarding their applications for funding and invoices and are required to certify on the E-Rate application and invoicing forms to the truth and accuracy of the information submitted. USAC's comprehensive application review process includes the review of submitted documentation, which can lead to the discovery of alleged false documentation. Additionally, all E-Rate program participants remain subject to audits by USAC's Audit and Assurance Division (AAD) and, if needed, investigations by USAC's Office of General Counsel (OGC).

Invoicing of the Fund for ineligible products or services. USAC maintains an invoice review process for E-Rate invoices. Invoices are subject to additional review when: (1) the services invoiced do not appear to match the services that were approved for funding; or (2) the services or products appear to be ineligible for funding. The Commission continues to work with USAC on outreach activities designed to help interested eligible entities successfully participate in the program and reduce the potential for invoicing and other errors. In FY 2019, in addition to approving the expansion of in-person trainings to ensure a broader reach, the FCC oversaw USAC's enhancements to its online learning opportunities, including the addition of new webinars.

Potential conflicts of interest in the competitive bidding process. USAC reviews applications for E-Rate support and requested documentation to ensure compliance with the Commission's E-Rate rules, including competitive bidding rules, and program procedures. The review process includes measures aimed at flagging potential conflict of interest issues. In addition, USAC's AAD conducts audits of program beneficiaries and service providers and may serve as a source of information for identifying alleged conflicts of interest. USAC also has a system in place for investigating whistleblower allegations of competitive bidding violations in the E-Rate program. If allegations are made to indicate that a conflict of interest exists between applicants, consultants or service providers, USAC opens an investigation to determine whether the allegations have merit. To ensure compliance with competitive bidding rules, USAC continues to: (1) provide training on the E-Rate competitive bidding rules to program participants; (2) provide examples of acceptable documents to verify

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[1] *See* Federal Communications Commission, *Agency Financial Report*, Fiscal Year 2018 (FY 2018 AFR), pp. 104-105, *available at* https://docs.fcc.gov/public/attachments/DOC-355122A1.pdf; Federal Communications Commission, *Agency Financial Report*, Fiscal Year 2017 (FY 2017 AFR), pp. 92, 98-101, *available at* https://docs.fcc.gov/public/attachments/DOC-347780A1.pdf.

[2] *See* FY 2017 AFR at pp. 98-101.

compliance on its website; (3) issue News Briefs to provide timely information to applicants and service providers regarding the competitive bidding process; and (4) conduct webinars regarding compliance with competitive bidding requirements. Moreover, this year, USAC's OGC launched a fraud risk program to investigate instances of fraud in the program, including fraudulent activity associated with the competitive bidding process.

Inadequate documentation to substantiate compliance with competitive bidding rules. USAC obtains copies of bids and other documentation to review for compliance with competitive bidding rules, including the requirement that the competitive bidding process be fair and open, that the price of the eligible services and goods be considered the primary factor, and that the applicant wait at least 28 days from the date of the FCC Form 470 posting before selecting a service provider. E-Rate program rules require applicants to retain bids and other documentation related to E-Rate-supported services for at least 10 years after the latter of the last day of the applicable funding year or the service delivery deadline and to produce that documentation at the request of USAC, the Commission, and state or other federal agencies. If an applicant does not respond to document requests or provides inadequate documents to determine compliance with the FCC's competitive rules, USAC denies the applicant's request for funding. USAC continues to provide competitive bidding guidance to applicants and service providers through its website, online training, and in person training sessions.

Service Provider billing inaccuracies. During the invoice review process, USAC's invoicing procedures require certain invoices to undergo a detailed services review, which reconciles the services billed to the approved funding request and may also require the submission of additional documentation to show that services have been delivered. USAC's AAD also conducts audits of E-Rate beneficiaries and service providers through its Beneficiary and Contributor Audit Program (BCAP) and tests payments in the E-Rate program through the Payment Quality Assurance (PQA) program. Both programs may reveal instances of service provider billing errors. USAC is planning at least two audits in the coming year focused on service provider billing inaccuracies, the outcome of which is expected to provide further insight into the nature of these types of errors.

Insufficient Children's Internet policies. Consistent with the Commission's rules, USAC continues to ensure compliance with the Children's Internet Protection Act (CIPA). USAC provides guidance about CIPA compliance during applicant trainings, on its website (including examples of documents to retain to demonstrate compliance), and in webinars. Certain USAC beneficiaries are audited for CIPA compliance and such audits include the review of Internet safety policies against the Commission's Internet safety policy requirements, and the process by which the beneficiary communicated and administered the policy.

<u>Lifeline Program</u>. OIG states the Lifeline program continues to require significant resources to combat waste, fraud, and abuse. In doing so, OIG maintains that certain proposals in the *2016 Lifeline Order* to change administration of the Lifeline program have not been fully implemented. Management notes that the FCC recently adopted numerous measures to strengthen the Lifeline program's enrollment, reimbursement, and other processes, and the FCC remains committed to combatting waste, fraud, and abuse in the program.

The National Verifier, which was established in the *2016 Lifeline Order*, will determine eligibility for subscribers in all U.S. states and territories to receive Lifeline benefits. The National Verifier is currently fully launched in 38 states and territories and is soft launched in 10 additional states and territories. The National Verifier utilizes a combination of automated and manual processes to verify eligibility and confirm whether a consumer is qualified for the Lifeline program. To confirm participation in a qualifying program, the National Verifier connects to multiple eligibility databases, including connections with the U.S. Department of Housing and Urban Development database to verify federal public housing assistance, and with the Centers for Medicare and Medicaid Services (CMS) database to verify Medicaid participation. The National Verifier also connects to state Supplemental Nutrition Assistance Program and/or Medicaid databases in 12 of the launched states. Of all applications processed since the implementation of the CMS database connection, the National Verifier has been able to verify 78 percent of Lifeline applicants' eligibility via a state or federal eligibility database. To further refine the verification process, USAC continues to work with states and territories to implement additional automated connections to eligibility databases. The FCC and USAC continue to work to launch the National Verifier in all states and territories by the end of calendar year 2019. As the National Verifier nears full rollout, USAC is revisiting its programmatic review and audit procedures to properly address risks in the program, which are changing as a result of the National Verifier. USAC's Office of General Counsel has also stood up the Fraud Risk Group which will continue to refer potential cases of waste, fraud, and abuse to OIG and conduct internal investigations to better provide OIG with critical information at the outset.

OIG also states audits and investigations have identified the ongoing risks for the Lifeline program. Certain of these risks were also identified by OIG in the *2018 and 2017 Management Challenges Memoranda* and the FCC's replies delineated actions taken to mitigate these risks.[3] Below are examples of efforts taken in 2019 to address these findings, in addition to those already underway. To the extent OIG would like more information on the Commission's plan to remediate these risks, please contact the Managing Director.

Eligible Telecommunications Carriers (ETCs) lack proof of eligibility for subscribers to receive Lifeline service. In addition to the verification process established by the National Verifier, on a quarterly basis, USAC reviews a statistical sample of subscribers to verify eligibility, to confirm the subscriber is not deceased, to review oversubscribed households, and to evaluate possible phantom subscribers. To date, USAC has de-enrolled 5,800 subscribers and has identified approximately $670,000 in recoveries as a result of these reviews. USAC further continues to review the eligibility verification processes of carriers to ensure compliance with FCC rules. For example, USAC's audits test the sufficiency of carriers' eligibility documentation. In addition, the Lifeline program began reviewing 12,000 enrollments per quarter in January 2018 to determine whether carriers have properly deemed consumers eligible for the program. The result of these quarterly reviews has improved the number of eligible subscribers in the program. Based on the results of these audits and reviews, USAC de-enrolls consumers, recovers disbursements, and refers non-compliance to the FCC where appropriate. In October 2019, the Commission adopted a rule requiring ETCs or the National Verifier to collect eligibility documentation during a subscriber's annual recertification if that subscriber's eligibility was initially verified using an eligibility database but can no longer be verified using a database.

Subscribers receive duplicate service from multiple carriers. As part of duplicate prevention, the National Lifeline Accountability Database (NLAD) continues to be the system of record associating enrollments of consumers to the carriers. With the implementation of the National Verifier, USAC has enhanced NLAD to ensure that no enrollment is permitted in a fully launched state until NLAD confirms that the National Verifier has found the consumer to be eligible. Further, the National Verifier itself will not deem a consumer eligible until it confirms that the consumer is not already enrolled in the program as recorded in NLAD. These cross-checks should prevent carriers from attempting to enroll a duplicate subscriber.

ETCs and their agents enroll ineligible and even phantom subscribers. As described above, the National Verifier determines the eligibility of Lifeline applicants, and, where the National Verifier has fully launched, the NLAD will not permit an enrollment of a consumer who has not been deemed eligible by the National Verifier. Audits and programmatic reviews designed to test carriers' compliance with Lifeline eligibility rules continue in parallel to the implementation of the National Verifier.

Phantom subscribers are described as those that are not enrolled in NLAD and claimed for support, or vice versa. Beginning in January 2018, all claims for support are limited to only those subscribers that have been validated and enrolled in NLAD. As a result, no carrier can claim more subscribers than have been validated. In the three states that have opted out of the NLAD, payment is based on a subscriber listing submitted by the ETC or state administrator. In October 2019, the Commission codified a requirement that ETC reimbursement requests be based on the ETC's claimed subscriber list in NLAD or provided by a state administrator in the three states that operate their own duplicate checks. USAC also undertook an effort to look back to periods

[3] *See* FY 2018 AFR at pp. 99-100, 105-107; FY 2017 AFR at pp. 92-93, 101-105.

prior to 2018 to recover overclaimed amounts. While not all subscribers enrolled in NLAD are eligible to be claimed in a particular month based on program rules, if an ETC is not claiming a high percentage of its subscribers in NLAD, it may indicate that the subscribers are not receiving service. On a quarterly basis, carriers are asked to provide an explanation when their unclaimed subscriber count is 10 percent or more of their total subscriber base, or when they have not claimed the same active subscriber in NLAD for three consecutive data months. The number of subscribers requiring this review dropped from an initial review of 5,200 subscribers to less than 300 in the most recent review.

ETCs or their agents continue to attempt to enroll already-deceased individuals. USAC automatically prevents the enrollment of a deceased subscriber through its connection to LexisNexis, which leverages the Social Security Administration's Death Master File among other source data. On a quarterly basis, USAC reviews a statistical sample of existing subscribers to verify they are not deceased or did not die after enrollment. The most recent reviews have determined less than 2 percent of sampled subscribers are deceased. USAC is pursuing direct access to the Death Master File, which will avoid the current per look-up cost with the Third Party Identity Verification vendor, so that USAC may consider routinely checking deceased status on more than a sampling basis. In October 2019, the Commission codified a rule prohibiting ETCs from enrolling or claiming for reimbursement a Lifeline subscriber if the National Verifier or NLAD cannot verify the subscriber as living.

ETCs fail to timely de-enroll subscribers who no longer qualify, who are not using the service, or have switched to another Lifeline carrier. In October 2019, the Commission adopted a Notice of Proposed Rulemaking seeking comment on amending its rules to specify the timeframe in which an ETC must begin the notice and de-enrollment process when it has reasonable basis to believe a Lifeline subscriber is no longer eligible. The Notice also seeks comment on ways to prevent ETCs from evading the usage requirement and what documentation ETCs must maintain to demonstrate compliance with the usage requirement. As the National Verifier continues to launch, USAC will conduct annual recertification of all subscribers, and will automatically de-enroll those that fail to complete the eligibility recertification process. In parallel to the National Verifier implementation, USAC continues to perform audits to identify carriers whose recertification or de-enrollment processes do not comply with FCC rules.

The NLAD also does not permit a single subscriber to be simultaneously enrolled with two carriers at once, which prevents the risk of duplicative reimbursement from the program. However, USAC occasionally receives consumer reports that a carrier refuses to de-enroll a consumer when that consumer would prefer to transfer service to another carrier. In these cases, USAC customer service assists in contacting the carrier, and if there is a suspicion of fraud or a pattern of such complaints, USAC refers the issue to the FCC Enforcement Bureau as appropriate. USAC's audits also test for compliance with the non-usage rules to confirm that carriers have properly de-enrolled subscribers that do not use the service.

ETCs' failure to adequately supervise sales agents and continued use of commission-based compensation that incentivizes fraud. OIG states the FCC and USAC must monitor National Verifier enrollment attempts to identify ETCs and their agents who attempt to circumvent safeguards. The FCC and USAC, according to OIG, also need to regularly reiterate that ETCs and their agents continue to be held responsible for fraudulent enrollments regardless of whether the enrollment evades the National Verifier's safeguards. In October 2019, the Commission adopted a rule prohibiting ETCs from paying commissions to enrollment representatives based on the number of Lifeline applications or Lifeline enrollments processed by those representatives. In addition, the Representative Accountability Database (RAD) has been established to identify and register sales agents that assist consumers in applying for Lifeline. In October 2019, the Commission adopted a rule requiring ETC enrollment representatives to register with the RAD prior to accessing USAC's National Verifier or NLAD systems. To register with RAD, the sales agent must provide identifying information such as full name, date of birth, and personal address. RAD is currently available on a voluntary basis only, but will become mandatory when the recently adopted requirement to register takes effect. The Representative Accountability Database will issue unique identifiers to enrollment representatives that allow USAC to monitor those representatives' activities in USAC's Lifeline systems, such as NLAD and the National Verifier. As part of this monitoring effort, USAC will be able to better detect suspicious activity in its systems and limit the access of enrollment representatives engaged in potentially fraudulent activity. This may include a permanent lock-out of an enrollment representative from USAC's systems, and USAC could also better identify individual enrollment representatives to refer to the FCC's enforcement authorities where appropriate. In October 2019, the Commission adopted a Notice of Proposed Rulemaking that seeks comment on prohibiting the in-person distribution of free handsets during Lifeline enrollments, due to that practice's potential to encourage ineligible consumers to attempt to enroll in the Lifeline program.

Rural Health Care Program. OIG highlights the Commission's *2019 Promoting Telehealth Report and Order*, which improved competitive bidding in the Rural Health Care (RHC) Program by including "fair and open" into the competitive bidding standard. In addition, as OIG notes, the *2019 Promoting Telehealth Report and Order* prohibits service providers from assisting applicants in completing the request for proposal or request for services form; and prohibits service providers participating in or assisting with evaluating bids. OIG further states that "effective enforcement of these new rules and existing rules, as well as general oversight of the program, remains a significant management challenge."

In the *2019 Promoting Telehealth Report and Order*, the Commission adopted significant reforms to improve administration and oversight of the RHC Program and deter waste, fraud, and abuse. For example, USAC must now submit written procedures to the FCC's Wireline Competition Bureau for review and approval to ensure that the procedures properly enforce the Commission's rules. The procedures submitted must cover USAC's review of funding applications, post-commitment functions, recovery actions, processing of invoices and appeals, and other activities as directed by the Wireline Competition Bureau. USAC must also develop outreach materials and activities to inform health care providers and service providers of what they need to do to comply with the Commission's rules, including, but not limited to, the production of filing guides detailing the information that must be submitted to USAC at each stage of the funding process to verify compliance with program rules.

In addition, USAC has been directed to submit comprehensive plans for the administration of the RHC Program to the Wireline Competition Bureau and the Office of Managing Director (OMD) on an annual basis. These comprehensive plans are to detail USAC's continuing efforts to improve the administration of the RHC Program, including its work to implement the new rules adopted by the *2019 Promoting Telehealth Report and Order*, and provide an additional mechanism for oversight of that work.

The *2019 Promoting Telehealth Report and Order* adopted additional measures to guard the RHC Program from waste, fraud, and abuse. Specifically, the new rules will reform the distribution of RHC Program funding to promote efficiency and reduce incentives ingrained in the Telecommunications (Telecom) Program's rules that encourage waste, fraud, and abuse. The new rules will also target RHC Program funds to the rural areas most in need of health care services. As OIG notes, the new rules will harmonize and strengthen competitive bidding requirements between the Telecom Program and the Healthcare Connect Fund Program, including by codifying the Healthcare Connect Fund Program's "fair and open" competitive bidding standard in the Telecom Program's rules and creating gift rules for the use of consultants to promote fairness, uniformity, and transparency in the competitive bidding process. The new rules also simplify the application process for program participants and clarify program requirements to promote compliance with program rules and the furtherance of the RHC Program's goals.

Enforcement actions have also been taken following extensive investigations by the Commission's Enforcement Bureau.[4] In addition, USAC has initiated a heightened review of the rural and urban rates charged by service providers to certain rural health care providers participating in the RHC Telecom Program. This effort has since been expanded to cover all applications requesting over $10,000 in undiscounted costs. The Enforcement Bureau continues to vigorously investigate possible violations of Commission rules concerning the RHC Program and will bring enforcement actions where warranted.

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[4] *See* FY 2018 AFR at pp. 107-108.

Compliance with Improper Payments Elimination and Recover Act Improvement Act (IPERIA). OIG states that, "[e]nsuring that the Commission is compliant with the requirements of IPERIA is considered a significant management challenge." In doing so, OIG cites its 2018 IPERIA audit which found both the Lifeline program and High-Cost program were non-compliant with improper payment reporting requirements. The Commission and USAC have worked together to improve compliance of the Lifeline and High-Cost programs with IPERIA. Improvements to the Lifeline program includes deployment of the National Verifier, as discussed above. Also, to prevent payments for improperly certified subscribers, the Commission and USAC developed standard forms for the Lifeline program's certification, re-certification, and one-per-household worksheets. As a result of this initiative, all service providers are required to use these forms or a state-mandated form. In addition, the Commission and USAC made changes to the calculation of carriers' claims for Lifeline reimbursement in January 2018 which enabled USAC to calculate claims based on subscribers that have been fully validated by the NLAD, rather than on carriers' self-validated claims. The Commission and USAC have also updated existing procedures to include risk-based reviews of various data points. Further, USAC's Office of General Counsel has stood up a Fraud Risk Group, which will conduct investigations regarding potential waste, fraud, and abuse in the Lifeline program.

IPERIA compliance improvements to the High-Cost program include examination by the Commission and USAC to expand improper payment testing procedures for the High Cost Program, given the nature and design of the High Cost Program and its complexity. The Commission and USAC are also working together with USAC's independent statistician to determine if there are alternative approaches that can be used to more clearly reflect the risks of improper payments in the High Cost program.

In addition, the FCC has put processes in place to deter and prevent fraud and reduce or prevent improper payments in all USF Programs, which include: (1) fraud risk assessments at the entity and at the program levels; (2) investigations supporting enforcement actions; (3) developing a data-analytics tool to help detect fraud; (4) audits of beneficiaries of the USF programs, and (5) testing of payments to USF beneficiaries.

III. TV BROADCASTER RELOCATION FUND

The TV Broadcaster Relocation Fund (TVBRF) was established by the Middle-Class Tax Relief and Job Creation Act of 2012 (2012 Act) to reimburse costs reasonably incurred by full power and Class A television broadcasters who are being relocated to new channels because the broadcast spectrum was repacked as a result of the 2017 incentive auction. Since the creation of the fund, the Commission has retained a fund administrator and established effective internal controls to minimize risks, such as establishing a catalog of eligible reimbursable expenses, requiring relocation cost estimates from broadcasters, and establishing audits and other data validation techniques to verify compliance with program rules. OIG recognizes that the FCC and its fund administrator "have taken actions to establish internal controls and minimize risk to ensure the best use of resources." OIG states that it is imperative that the FCC and its fund administrator continue their "efforts to closely monitor internal controls and address any identified deficiencies to ensure that risk is appropriately managed and protect the [TVBRF] against waste, fraud, and abuse during the reimbursement phases."

The incentive auction closed on April 13, 2017, with the release of the *Closing and Channel Reassignment Public Notice* announcing 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 the OMD's Financial Operations team are charged by the Commission with overseeing the transition of repacked stations to new channel assignments and administering the distribution of the TVBRF to the 957 full power and Class A television stations and multichannel video programming distributors (MVPDs) who carry their channels that the 2012 Act provided would be eligible for reimbursement from the TVBRF for their costs incurred as a result of that channel reassignment. 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.

The 2018 Reimbursement Expansion Act (2018 Act) expanded the group of entities eligible to receive money from the TVBRF to include reimbursement of the costs reasonably incurred by certain low power TV and TV translator stations and FM radio stations (together LPTV and FM Stations) as a result of the post-auction transition. The 2018 Act also appropriated additional money to the TVBRF to augment the original funding for full power and Class A stations and MVPDs and to reimburse LPTV and FM stations, and made funds available to the Commission for the purposes of consumer education relating to the reorganization of the TV spectrum. In March 2019, the Commission released the *LPTV/FM Reimbursement Report and Order*, which adopted eligibility criteria and procedures for reimbursing LPTV and FM Stations. The 2018 Act also extended the deadline for the FCC to make reimbursement payments from the TVBRF until July 3, 2023, although the end date for full power and Class A television stations to transition to new channel assignments remains July 3, 2020.

Consistent with OIG's recommendation, the FCC has continued to manage risk in order to protect the TVBRF against waste, fraud, and abuse during the reimbursement process, which includes the following procedures and controls:

<u>Cost Catalog</u>. The Commission developed a new cost catalog identifying the types of expenses commonly anticipated to be incurred by LPTV and FM stations as a result of the post-incentive auction broadcast transition and containing pricing information for such costs. The expanded cost catalog provides guidance to such stations regarding reimbursable expenses and facilitates the identification of cost outliers that may require further scrutiny by the Commission. The cost catalog has been fully integrated into the Commission's processes and procedures for such entities to submit information regarding reimbursement to the FCC.

<u>Fund Administrator</u>. In January 2017, the FCC's Media Bureau formally engaged a professional services team to serve as Fund Administrator to assist in the administration of the TVBRF for full power/Class A stations and MVPDs. The Commission has now adjusted the scope of the Fund Administrator's responsibilities to cover the expansion of the TVBRF under the 2018 Act. The contract is comprised of professionals with experience in the fields of funds administration, accounting, government auditing, and broadcast engineering. As appropriate to cover the expanded scope of the reimbursement program, the Fund Administrator drafted, and the Media Bureau approved, updates to key programmatic documentation requirements, including business process workflows, internal controls documentation, methods and procedures, and a program monitoring and compliance plan.

<u>Payment Process</u>. Once a station'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. In light of the expansion of the reimbursement program as a result of the 2018 Act, Financial Operations has augmented and revised the internal controls already in place to ensure that the banking information submitted by LPTV and FM stations is valid and that payments are made only to the appropriate station. These controls include, among other things, a revised banking information form (Form 1876) and process for verification of banking information.

<u>Third-Party Review of Internal Controls</u>. The FCC continued over the past year to have a professional services contractor assess the processes used in both the ongoing program and the new processes being implemented for the expanded reimbursement program as a result of the 2018 Act. With respect to the ongoing reimbursement program for full power and Class A stations and MVPDs, the contractor conducted additional payment controls testing similar to testing conducted in 2018 and did not uncover any evidence of improper payments within its sample. The contractor also reviewed the Commission's continued compliance with OMB Circular A-123, including requirements for identifying improper payments (if any) as related to reimbursement payments, reviewed Form 1876 verification and review processes, reviewed payment data to identify if there were any anomalies among applicable Commission databases, and worked with the Media Bureau and Fund Administrator staff to assure consistency between methods and procedures documentation and practices. In

light of the expansion of the reimbursement program as a result of the 2018 Act, Financial Operations also asked its professional services contractor to expand the assessments it had performed with respect to the original program to cover the newly-covered categories of eligible entities (LPTV and FM stations).

Allocation Process. The Commission's *Incentive Auction Report and Order* required the Media Bureau to review the initial estimates submitted by full power/Class A stations and MVPDs and make an initial reimbursement allocation for each 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. The LPTV/FM Reimbursement R&O delegated to the Media Bureau the ability to use a similar allocation framework with respect to the newly-eligible entities. This process will permit the Media Bureau to make timely allocations to keep reimbursements moving forward on a timely basis and reduced the likelihood that excess funds are allocated.

IV. CONCLUSION

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

Mark Stephens Managing Director Office of Managing Director	Jae Seong Chief Financial Officer Office of Managing Director	John Skudlarek Acting Chief Information Officer Office of Managing Director