FEDERAL COMMUNICATIONS COMMISSION

Agency Financial Report

Fiscal Year 2023

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I. MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Message from the Chairwoman

As Chairwoman of the Federal Communications Commission (FCC or Commission), I am pleased to present the FCC's fiscal year (FY) 2023 Agency Financial Report. This report provides financial and performance information about the FCC's activities over the course of FY 2023.

The very first sentence of the Communications Act, Congress directs the Federal Communications Commission to help make communications services available to 'all the people of the United States … without discrimination on the basis of race, color, religion, national origin, or sex.' The Commission remains resolute in fulfilling this mandate and assuring the benefits of modern communications provide equal access to everyone, everywhere. The pandemic underscored this mission by illustrating, with painful clarity and urgency, that robust broadband access is essential for full participation in modern life. In service of this statutory mandate, the FCC has made extraordinary progress to strengthen consumer protection, universal service, broadband access, competition, space innovation, national security, and public safety, while keeping pace with dynamic and advancing technologies. Below, I am pleased to provide the FY highlights of initiatives being worked on by Commission staff.

The Bipartisan Infrastructure Law created the largest broadband affordability effort in history—the Commission's Affordable Connectivity Program (ACP). The ACP, the nation's largest broadband affordability program, has helped more than 21 million households pay for high-speed internet service and obtain the connections they need for work, school, and so much more. The FCC has also heavily engaged local, state, and Federal organizations to serve as ACP outreach and awareness-raising partners. The FCC has hosted or participated in more than 1,400 + virtual and in-person awareness and enrollment events and offers outreach materials in more than 10 languages. In addition to closely collaborating with other Federal agencies to promote program enrollment, the FCC continues its nationwide paid media public awareness campaign for this urgent and essential program.

In addition to ACP, Congress gave the FCC a new mandate to address digital discrimination. In the Bipartisan Infrastructure Law, Congress directed the FCC to "adopt rules to facilitate equal access to broadband internet access service." We started a proceeding and created an interagency Task Force to Prevent Digital Discrimination. We received hundreds of comments in the proceeding, and the Task Force conducted listening sessions in places far and wide, so that we could hear from everyone with a role to play, including state, local, and Tribal governments, community leaders and advocates, and providers. The information from the proceeding and the listening sessions has helped us address Congress' mandate for the FCC to facilitate equal access to broadband. The FCC plans to adopt rules addressing digital discrimination on November 15, 2023.

The Commission launched its new Space Bureau and Office of International Affairs this year. The space industry has entered an era of unprecedented growth, which is fueling an increase in both the complexity and the number of applications for space services before the Commission. Our country's economic success today and in the future relies on space-based connections, so we have made important structural changes to meet the needs of space innovation. The Space Bureau is interfacing with our international regulatory counterparts, modernizing our satellite and orbital debris rules, and is also preparing for the coming convergence of satellite and terrestrial convergence known as the Single Network Future. And recently, the Commission adopted new rules to streamline our satellite policies and expedite the processing of space and earth station applications. Satellite connectivity is fundamental to improving our quality of life and maintaining our economic success, and these changes will enable the Commission to carry these important missions forward.

The Commission also took steps to implement the Safe Connections Act. Under this new law, the Commission has authority to help survivors of domestic abuse to swiftly and securely separate from communications contracts like family plans, and receive emergency communications support from Lifeline or ACP for up to six months. For those affected by domestic violence and abuse, a phone is a life saver. It is a gateway to building a new life, away from harm. The Safe Connections Act will help survivors of domestic violence and harmful abuse get access to the connections they need to safely rebuild their lives

In response to the Broadband DATA Act, the FCC developed its first location-based broadband map to paint a more accurate picture of where broadband is and is not available across the United States. This new map identifies every household and small business in the country that have access to high-speed internet service. An updated iteration of the map will be released by the FCC this month. To further ensure equitable broadband access for consumers, in November 2022, the FCC adopted new rules requiring broadband providers to display easy-to-understand labels to allow consumers to comparison shop for broadband services. I also proposed new rules in July for Cybersecurity Labeling of Smart Devices, to ensure that every consumer, business, and every bank with a vending machine can make smart choices about the connected devices they use. In September, I proposed new rules to allow very low power devices to operate in the 6 GHz band alongside other Wi-Fi-enabled devices. These rules were recently unanimously adopted by the Commission. The rules will spur an eco-system of cutting-edge applications, including augmented and virtual reality, which will help businesses, enhance learning opportunities, advance healthcare opportunities, and bring new entertainment experiences.

Finally, I am pleased to report I recently proposed to begin the process for re-establishing the FCC's oversight over broadband and restoring uniform, nationwide net neutrality rules. Such rules would affirm – under Title II of the Communications Act – that broadband service is on par with water, power, and phone service; that is: essential. On issue after issue, reclassifying broadband as a Title II service would help the FCC serve the public interest more efficiently and effectively: from internet outages, to cybersecurity, privacy issues, robotexts and broadband deployment. If adopted, these rules will allow the FCC to protect internet openness and consumers, defend national security, and advance public safety.

As for management of the Commission, the FCC has again demonstrated its commitment to sound financial management and has received for the eighteenth straight year an "unmodified" opinion on its financial statements from the FCC Office of Inspector General's independent auditors. I am grateful to the FCC staff who diligently ensure the Commission maintains effective financial controls and provide all the necessary information to the independent auditors to facilitate the financial audit process. The Inspector General and its auditors make some recommendations to the FCC for additional improvements, and the FCC concurs with these recommendations. The FCC's staff is devoted to implementing all necessary improvements to continue to strengthen the Commission's operations.

I have the privilege of leading an exceptionally talented FCC team whose knowledge, commitment , and professionalism enable us to accomplish our mission in the digital age. I thank the Commission team for their hard work, enthusiasm and dedication.

In closing, the Agency Financial Report that follows contains the FCC's FY 2023 financial statements and other management highlights; the information contained therein is reliable and complete.

Jessica Rosenworcel
Chairwoman
November 15, 2023

Overview of the Federal Communications Commission

Introduction

Office of Management and Budget (OMB) Circular No. A-136, released on May 19, 2023, 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) 2023 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 Chairwoman, an overview of the FCC, including the senior leadership, Agency's mission statement, organizational structure, organizational chart, map of field offices, strategic goals and objectives, strategies and resources to achieve goals, entity components for financial statement purposes, payment integrity, 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 and management assurances, required reporting on payment integrity pursuant to the Payment Integrity Information Act of 2019, management and performance challenges from the Office of Inspector General, 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 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 from the same political party at any given time. The President designates one of the Commissioners to serve as the Chairperson.

The Chairperson 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.

Currently, the Commission has only four Commissioners. The current Chairperson and the Commissioners are:

- Chairwoman Jessica Rosenworcel
- Commissioner Brendan Carr
- Commissioner Geoffrey Starks
- Commissioner Nathan Simington
- Commissioner Anna Gomez

Mission

As specified in section one of the Communications Act of 1934, as amended, the Federal Communications Commission's (FCC or Commission) 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]

Organizational Structure

The FCC is organized by function. There are seven Bureaus and eleven Offices. The Bureaus and the Offices develop and administer the FCC's policies and regulations, process applications for licenses to operate facilities and provide communications services; analyze complaints from consumers and other licensees; conduct investigations; develop and implement regulatory programs; inform and educate consumers and conduct outreach, and organize and participate in hearings, workshops, conferences, webinars and other events. Generally, the Offices provide specialized support services. The Bureaus and Offices are:

- **The Consumer & Governmental Affairs Bureau** develops and implements consumer policies, including disability access and policies affecting state, local, Tribal, and territorial governments. The Bureau also serves as the public face of the Commission through outreach and education and responds to consumer inquiries and informal complaints. The Bureau maintains collaborative partnerships with consumer-facing organizations and state, local, Tribal, and territorial government in such areas as implementation of critical initiatives, implementation of new technologies, and emergency preparedness. 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 Bureau also ensures public facing access to the Commission for persons with disabilities via a team of American Sign Language interpreters and accessible formats specialists. The Bureau's Office of Native Affairs and Policy (ONAP) maintains an active Tribal consultation, engagement and outreach program to support robust government-to-government consultation with federally recognized Tribes, Alaska Native Villages, and Native Hawaiian Organizations and in support of the Commission's efforts to close the digital divide, including on Tribal lands.

- **The Enforcement Bureau** enforces the Communications Act and the FCC's rules. Among its responsibilities, it acts to protect consumers, their privacy, and sensitive information, ensure efficient

[1] 47 U.S.C. § 151.
[2] *Id.*

use of spectrum, further national security and public safety, promote competition, resolve disputes, and protect the integrity of FCC programs and activities from fraud, waste, and abuse.

- **The Media Bureau** recommends, develops, and administers the policy and licensing programs relating to electronic media, including broadcast television and radio, cable television, 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 and interoperability, homeland security, national security, emergency management and preparedness, disaster management, and network reliability and resiliency. 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 crises. 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. Finally, the Bureau coordinates the Commission's national security mission and consults with the Defense Commissioner pursuant to 47 CFR § 0.181 of the Commission's rules.

- **The Space Bureau** develops, recommends, and implements policies and programs for satellite and space-based communications and activities. The Bureau strives to promote a competitive and innovative communications marketplace by leading licensing and regulatory efforts related to satellite and space-based communications while fostering the efficient use of scarce spectrum and orbital resources.

- **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 and fixed wireless 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, broadband, and telephone lines, as well as many policies (including, but not limited to, local number portability) that are not dependent on the technology used by the service provider, 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 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 diversity, competition, and innovation in the provision and ownership of telecommunications and information services by supporting opportunities for small businesses, as well as women-owned and minority-owned communications businesses.

- **The Office of Economics and Analytics** provides objective economic analysis to support Commission policy making and implements agency-wide data practices and policies, including implementing significant economically-relevant data collections. 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. The Office develops and administers FCC decisions regarding spectrum allocations, use of spectrum on an unlicensed basis, and coordinates use of shared spectrum with the Executive Branch. The Office also oversees the Commission's equipment authorization program to ensure radiofrequency devices comply with technical rules and rules prohibiting authorization of equipment that has been determined to pose an unacceptable risk to national security. The Office also oversees the Commission's program to promote new and innovative technologies and services.

- **The Office of the General Counsel** serves as the FCC's chief legal advisor.

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

- **The Office of International Affairs** oversees and coordinates the FCC's global participation in international and multilateral conferences, bilateral meetings, regional organizations, cross-border negotiations and international standard setting efforts. The Office also facilities through rulemaking and licensing the Commission's development of policies regarding international telecommunications facilities and services as well as submarine cables, and advises and makes recommendations to the Commission on foreign ownership issues. In undertaking these functions, The Office implements Commission policies to facilitate competition and foreign investment in US. international telecommunications markets while ensuring, in consultation with relevant federal partners, that national security, law enforcement foreign policy, and trade policy concerns are addressed.

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

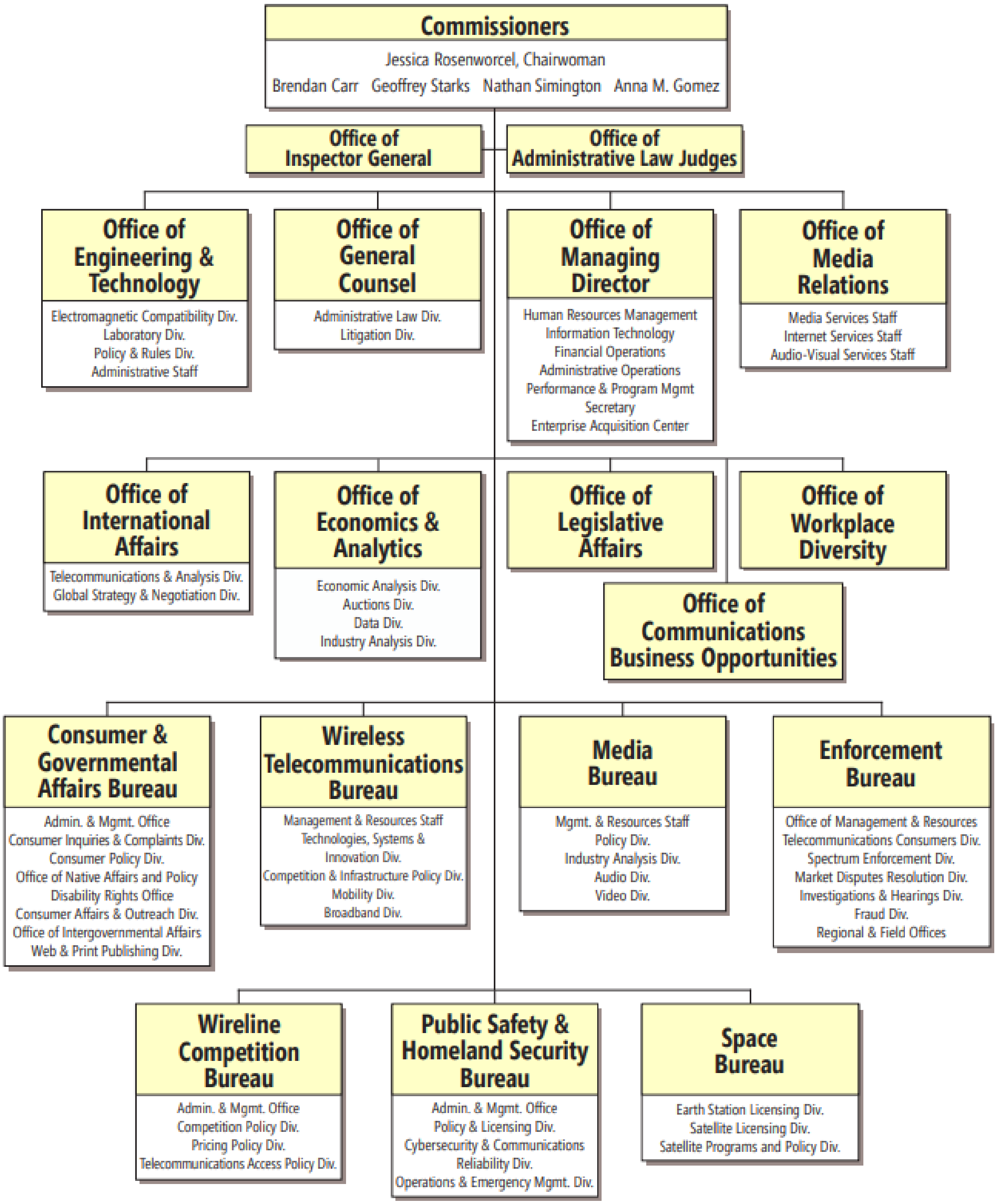
- **The Office of the Managing Director** administers and manages the FCC.

- **The Office of Media Relations** informs the media of FCC decisions and serves as the FCC's main point of contact with the media.

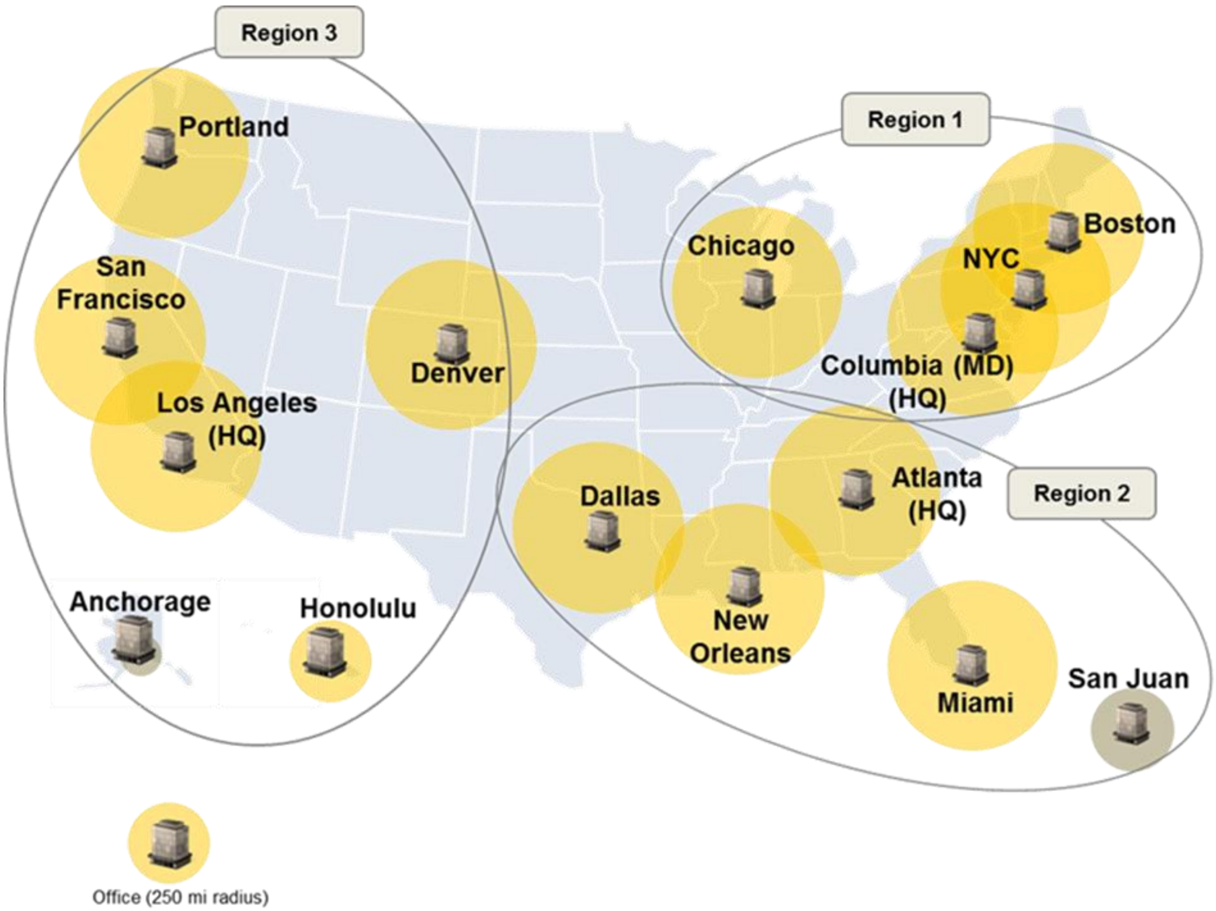
- **The Office of Workplace Diversity** develops, coordinates, evaluates, and recommends to the Commission policies, programs, and practices that foster a diverse workforce, and promotes and ensures equal employment opportunity (EEO) for all employees and applicants without regard to race, color, religion, sex (including pregnancy and gender identity), sexual orientation, national origin, age, disability (mental, intellectual, or physical), marital status, parental status, political affiliation, genetic information (including medical history), or any other basis protected by law.

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

Americans count on the FCC to support the connections they need for work, learning, healthcare, and access to the information we require to make decisions about our lives, our communities, and our country. The FCC will pursue policies to deploy affordable broadband for the benefit of all Americans and to promote diversity, equity, inclusion and accessibility. The FCC is also committed to advancing consumer rights, pursuing effective enforcement to protect consumers, and working to enhance competition to improve consumer choice. Furthermore, public safety is paramount to the nation, and the FCC is committed to making sure our communications networks are safe, secure, and resilient. In addition, the FCC will promote investment and advance the development and deployment of new communications technologies in an increasingly competitive global marketplace as we build a foundation for growth and opportunity for the future. The FCC, in accordance with its statutory authority and in support of its mission, has established six strategic goals. They are:

Strategic Goal 1: Pursue a "100 Percent" Broadband Policy

The COVID-19 pandemic put a spotlight on the serious broadband gaps that exist across the country, including in rural infrastructure, affordability for low-income Americans, and at-home access for students. This continuing digital divide means millions of Americans do not have meaningful access to essential infrastructure for 21st century success. In response to the COVID-19 pandemic and challenges that many Americans face, the agency should advance access to communications that are essential for Americans to work remotely, learn remotely, receive healthcare, and engage in commerce. To this end, the FCC will pursue policies to help bring affordable, reliable high-speed broadband to 100 percent of the country.

Strategic Goal 2: Promote Diversity, Equity, Inclusion and Accessibility

The FCC will seek to gain a deeper understanding of how the agency's rules, policies, and programs may promote or inhibit advances in diversity, equity, inclusion, and accessibility. The FCC will pursue focused action and investments to eliminate historical, systemic, and structural barriers that perpetuate disadvantaged or underserved individuals and communities. In so doing, the FCC will work to ensure equitable and inclusive access and facilitate the ability of underserved individuals and communities to leverage and benefit from the wide range of opportunities made possible by digital technologies, media, communication services, and next-generation networks. In addition, the FCC recognizes that it is more effective when its workforce reflects the experience, judgement, and input of individuals from many different backgrounds, Advancing equity is core to the agency's management and policymaking processes and will benefit all Americans.

Strategic Goal 3: Empower Consumers

Consumers who are well informed about their rights and what they're buying are more confident and more likely to participate in the digital economy. The FCC will tackle new challenges to consumer rights and opportunities stemming from the COVID-19 pandemic, plans for post-COVID recovery, and digital transitions. The FCC also will pursue effective enforcement and new approaches to protect consumers from unwanted and intrusive communications, phone-based scams, telephone privacy issues, and other trends that affect consumers. The FCC will work to enhance competition and pursue policies that protect the competitive process to improve consumer choice and access to information. The FCC will work to foster a regulatory landscape that fosters media competition, diversity, and localism. The FCC also must work to ensure the availability of quality, functionally equivalent communications services for persons with disabilities.

Strategic Goal 4: Enhance Public Safety and National Security

The FCC will pursue policies and enforcement efforts to promote the availability of secure, reliable, interoperable, redundant, and rapidly restorable critical communications infrastructure and services. The FCC also will promote the public's access to reliable 911 and emergency alerting, and support public safety's access to first responder communications. The FCC will work in coordination with federal partners, state, local, and Tribal governments and territorial government partners, and industry stakeholders to support disaster response and to ensure and promote the nation's defense and homeland security.

Strategic Goal 5: Advance America's Global Competitiveness

The FCC will take action to promote investment and advance the development and deployment of new communications technologies, such as 5G, that will allow the nation to remain a global leader in an increasingly competitive, international marketplace. The FCC will identify incentives and policies to close security gaps and accelerate trustworthy innovation. The FCC will work with its federal partners to advocate for U.S. interests abroad.

Strategic Goal 6: Foster Operational Excellence

The FCC should be a model for excellence in government by effectively managing its resources, maintaining a commitment to transparent and responsive processes that encourage public involvement and decision-making that best serves the public interest, and encouraging a culture of collaboration both internally and across government agencies.

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 Commission 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 amended the Communications Act of 1934 (Act) to codify and modify the Commission's longstanding policy of promoting universal telecommunications service throughout the nation.[3] Pursuant to section 254(d) of the Act, the Commission established rules and regulations governing how certain telecommunications service providers contribute to the USF and how those monies are disbursed.[4] For budgetary purposes, for FY 2019 and prior years, the USF comprised five elements that consisted of the four USF programs and the Telecommunications Relay Service (TRS) Fund. The four USF programs include: the High Cost Program (also known as the Connect America Fund), the Lifeline Program, the Rural Health Care Program, and the Schools and Libraries Program (also known as E-Rate).

[3] *See* Telecommunications Act of 1996, P. L. No. 104-104, 110 Stat. 56 (1996).

[4] *See* 47 U.S.C. § 254(d).

The Universal Service Administrative Company (USAC) administers the four USF programs and the Connected Care Pilot Program (CCPP) under the Commission's direction. These four programs and the CCPP 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 High Cost Program provides funding to eligible service providers to help defray the cost of serving customers in high cost and rural areas. The Lifeline Program provides monthly discounts to help make communications services more affordable for low-income consumers. The Rural Health Care Program provides support for both telecommunications and advanced telecommunications and information services for eligible health care providers. The E-Rate Program provides discounts for telecommunications, Internet access, and internal connections to eligible schools and libraries. Lastly, the CCPP provides support to help defray health care providers' costs of providing connected care services, particularly to low-income Americans and veterans. In FY 2023, the USF accounted for approximately $7,901 million in new available funds on the Commission's Combined Statement of Budgetary Resources. Additional information on USAC and the USF can be found at http://www.usac.org and https://www.fcc.gov/general/universal-service.

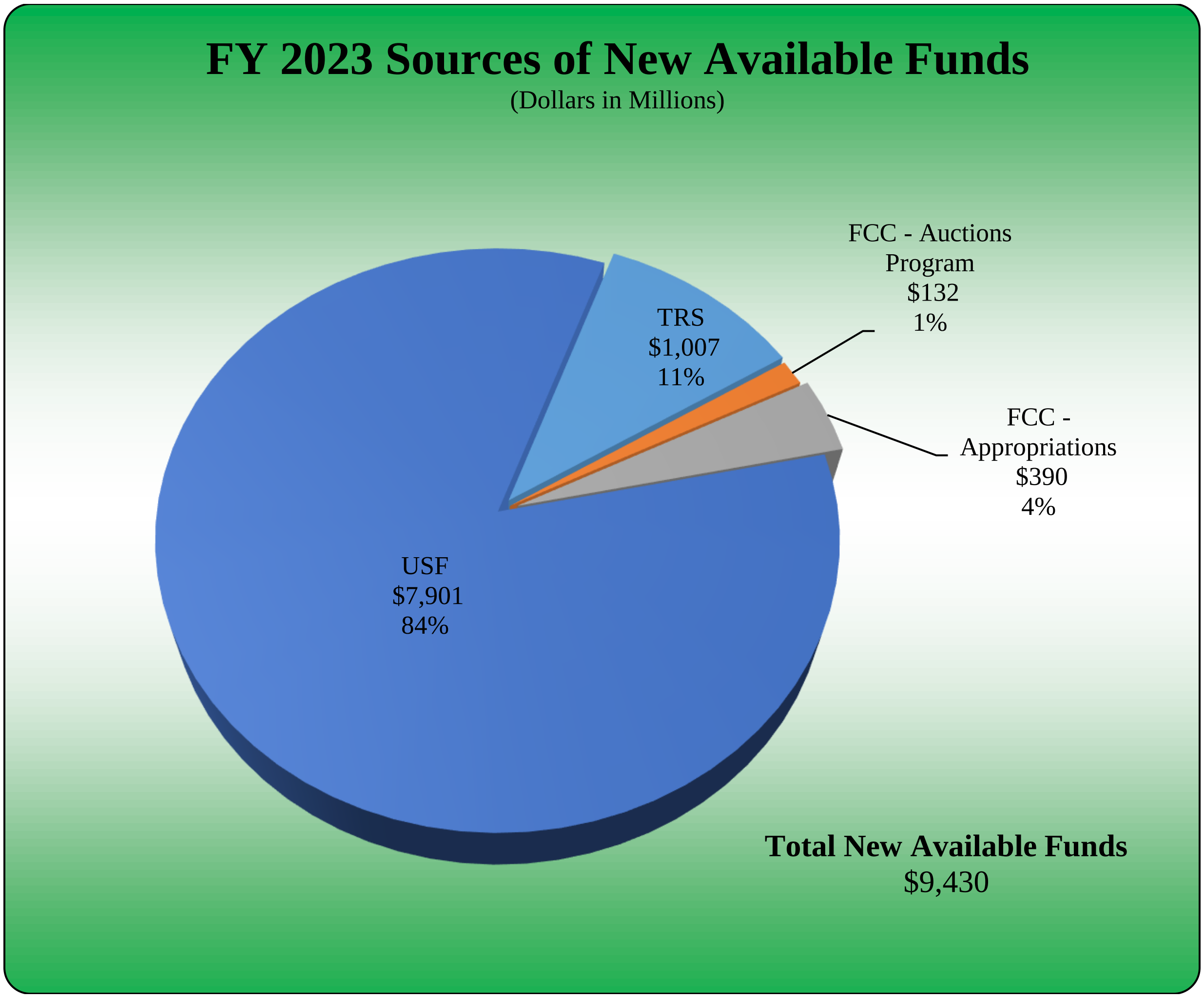
Telecommunication Relay Service (TRS) Fund – The TRS Fund represents a program established under section 225 of the Act.[5] This statute provides for a mechanism to support relay services necessary for telecommunications access by speech or hearing-impaired populations. Rolka Loube, LLC (RL) is the administrator 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 2023, the TRS Fund accounted for approximately $1,007 million in new available funds on the Commission's Combined Statement of Budgetary Resources. Additional information on RL and the 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.

FCC Appropriations – Pursuant to sections 9 and 9A of the Act and the Appropriations Act, the Commission is required by Congress to assess regulatory fees every fiscal year in an amount that can reasonably be expected to equal the amount of its annual appropriation. The Commission's appropriations of approximately $390 million reflects the amount of regulatory fees the Commission is required to collect for FY 2023.

Spectrum Auctions Program – 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. Approximately $132 million for the Commission's auctions program is collections from auction revenues used to offset the cost of performing auctions-related activities.

[5] *See* 47 U.S.C. §§ 225(a)(3), (b)(1).



As of September 30, 2023, the Commission has the following disclosure entities which do not substantially meet the requirements of consolidated entities.

- Universal Service Administrative Company (USAC)
- National Exchange Carrier Association, Inc. (NECA)
- Local Number Portability Administrator (LNPA) Program

Payment Integrity

In accordance with the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, and Payment Integrity Information Act (PIIA) of 2019, 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. Additional information reported by the Commission on Payment Integrity can also be found on https://paymentaccuracy.gov/.

Performance Highlights

PURSUE A "100 PERCENT" BROADBAND POLICY

The COVID-19 pandemic put a spotlight on the serious broadband gaps that exist across the country, including in rural infrastructure, affordability for low-income Americans, and at-home access for students. This continuing digital divide means millions of Americans do not have meaningful access to essential infrastructure for 21st century success. In response to the COVID-19 pandemic and the challenges that many Americans face, the agency should advance access to communications that are essential for Americans to work remotely, learn remotely, receive healthcare, and engage in commerce. To this end, the FCC will pursue policies to help bring affordable, reliable, high-speed broadband to 100 percent of the country.

FY 2023 PERFORMANCE HIGHLIGHTS
A key priority for the FCC is to pursue policies to address the existing broadband gaps across the country and to bring affordable, reliable high-speed broadband to all Americans. The FCC used several mechanisms and funding models to increase broadband service, including the Affordable Connectivity Program, the Emergency Connectivity Fund, and the Rural Health Care Program.

Affordable Connectivity Program

The Affordable Connectivity Program (ACP) is a $14.2 billion federal initiative that helps low-income American households bridge the connectivity divide. It offers qualifying households discounts of up to $30 per month for broadband service, and up to $75 discount per month if the household is on Tribal lands. Eligible households can also receive a one-time discount of up to $100 to purchase a laptop, desktop computer, or tablet from participating providers if the household contributes more than $10 and less than $50 toward the purchase price. It is a successor program to the Emergency Broadband Benefit Program, which helped almost 9 million afford internet access during the pandemic. Funding support for the ACP comes from the Bipartisan Infrastructure Law. As of September 30, 2023, there were approximately 20,700,000 households enrolled in the ACP.

The FCC took the following actions to further the goals of the ACP:

- Adopted an order creating the ACP Transparency Data Collection, a statutorily mandated annual data collection, which will collect information related to the price, subscription rates, and plan characteristics of the internet service offerings subscribed to by households enrolled in the ACP.
- Announced a series of enhancements to the ACP consumer application to make it easier for eligible consumers to apply and enroll in the program.
- Adopted an order to provide an up-to-$75 monthly broadband benefit for subscribers living in qualifying high-cost areas through the ACP. The Bipartisan Infrastructure Law specified that the $75 monthly benefit would support providers that can demonstrate that the standard $30 monthly benefit would cause them to experience "particularized economic hardship" such that they would be unable to maintain part or all of their broadband network in a high-cost area.
- Opened the ACP Transparency Data Collection submission window for providers, which will close on November 9, 2023.
- The FCC's Office of Inspector General (OIG) issued an advisory about potential provider non-compliance with the ACP usage and de-enrollment rules among certain providers. The OIG announced that, following its investigation, a major ACP provider has voluntarily repaid approximately $50 million that it improperly claimed between June 2021 and July 2022. Approximately ninety-percent (or $44.5 million) of the improper claims disclosed by the provider were related to low-income households that were not using the service as required by FCC program

rules. The provider also repaid $2.6 million for improper enrollments associated with the National School Lunch Program's Community Eligibility Provision and $2.3 million for claims associated with other compliance issues. In total, the provider repaid approximately one-third of the program disbursements it received for providing ACP service between June 2021 and July 2022.

- The Wireline Competition Bureau announced additional measures to ensure that providers are receiving reimbursement from the ACP for fully subsidized service only for households using their service, as required by the Commission's rules. The measures addressed potential provider non-compliance with the ACP usage rules. The Bureau: (1) referred a matter to the Enforcement Bureau for further investigation; (2) directed the Universal Service Administrative Company (USAC) to revise its methodology for proactively monitoring provider claims and de-enrollment data; and (3) directed USAC to expand its program reviews to help ensure compliance with the non-usage rules.

In the Commission's response to the January 2023 report by the U.S. Government Accountability Office (GAO) on ACP, the Commission supplemented the goals it established in the ACP Report and Order with the following objective, measurable, and quantifiable goals for the ACP. Initially, in 2022, as part of the accelerated 60-day rulemaking to adopt rules for the ACP, the Commission had established three goals for the ACP: 1) reduce the digital divide for low-income consumers; 2) promote awareness and participation in the ACP; and 3) ensure efficient and effective administration of the ACP. Later, in response to the GAO's 2023 recommendations, the Commission set more specific measures for each goal and defined targets for each of those measures. The targets set forth in the response to the GAO report include:

- Using consumer surveys to determine the number of ACP subscribers that are first-time internet users and increase that number of users by 5% per quarter, which is only one metric related to reducing the digital divide and the program's goal to help consumers get and stay online;
- Tracking program participation rates with the goal of increasing the month over month ACP participation rate average from 1.5% to 3% with the aim of having a participation rate of between 36.1% and 43.1%;
- Surveying the general public to identify program awareness, and use the data for targeted outreach;
- Increasing the percentage of subscribers who report via a consumer survey that the application and/or the enrollment process was easy to 75%, and reduce the number of those who found the application and/or enrollment process difficult to 4%;
- Increasing automatic approval of eligible National Verifier applicants nationwide by increasing local, state, and federal agency partnerships; and
- Reducing the ratio of the program's administrative costs per participating household.

In order to measure its progress towards achieving these goals, the Commission has already developed a robust outreach program, including several grant programs, including, but not limited to, the Your Home, Your Internet and ACP Navigator pilot programs. In addition, the Commission continues to make enhancements to the application and enrollment process to make it easier for eligible households to apply and enroll in the program. The Commission also sent a pilot survey to a sample of participants in the Fall of 2022 and a subsequent survey in July 2023 to establish benchmark data with which to measure the ACP performance against its goals going forward. A third survey was sent in October 2023, and we are currently awaiting survey results to evaluate and track the ACP's progress on reaching its goals.

Emergency Connectivity Fund

The FCC's Emergency Connectivity Fund (ECF) is a $7.171 billion program to help schools and libraries provide tools and services their communities need for remote learning during the COVID-19 emergency period. The ECF provides relief to millions of students, school staff, and library patrons. The initial application filing window closed on August 13, 2021, the second application filing window closed on October 13, 2021, and the third application filing window closed on May 13, 2022. USAC is the administrator of the ECF Program, and USAC and the FCC reviewing and processing the remaining pending applications on a rolling basis. On May 12, 2023, the Wireline Competition Bureau (WCB) and the Office of the Managing Director announced June 30, 2024 as the sunset date for the ECF Program following the expiration of the COVID-19 public health emergency on May 11, 2023.

As of the end of Fiscal Year (FY) 2023, the Commission had committed over $6.5 billion to schools and libraries across the country as part of the ECF. As of the end of FY 2023, the program has provided support to approximately 11,400 schools, 1,060 libraries, and 125 consortia, and provided nearly 13 million connected devices and over 8 million broadband connections. Of the over $6.5 billion in funding commitments approved thus far, approximately $4.14 billion is supporting applications from Window 1; $834 million from Window 2; and $2.06 billion from Window 3.

Rural Health Care

The FCC approved a number of proposals for the Rural Health Care (RHC) Program to make it easier for health care providers to receive support, reduce delays in funding commitments, and improve the overall efficiency of the program. These actions resolved petitions for reconsideration on issues from the August 2019 *Promoting Telehealth Report and Order*, and adopted proposals from the February 2022 *Further Notice of Proposed Rulemaking ("NPRM").* One of the adopted proposals harmonized the invoice process between the Telecommunications Program and Healthcare Connect Fund Program, the RHC Program's two component mechanisms. Another amended the RHC Program's funding cap and prioritization rules to limit the application of the internal cap and to prioritize health care providers' current year financial need over their future year need when the internal cap is exceeded. The FCC also proposed additional reforms to improve the effectiveness and efficiency of the RHC Program. These proposed reforms include: permitting conditional approval of eligibility for future eligible health care providers; simplifying the rules for determining urban rates by eliminating the seldom-used "standard urban distance" component of the urban rate rules; aligning the Service Provider Identification Number change deadline with the invoice deadline; and implementing a process for changing RHC Program evergreen contracts following a funding commitment.

Rural Broadband

The 5G Fund, a Universal Service Fund-supported program, was established in 2020 to distribute up to $9 billion to bring voice and 5G mobile broadband service to rural areas of the country unlikely to otherwise see unsubsidized deployment of 5G-capable networks. As adopted, the 5G Fund will use multi-round reverse auctions to distribute support, in two phases, to target mobile universal service in the high-cost program using the Commission's more precise, verified mobile coverage data gathered through its Broadband Data Collection.

In a Further Notice of Proposed Rulemaking (FNPRM), the FCC sought to refresh the record on the 5G Fund for Rural America to expand the deployment of 5G service to rural communities. The FCC's new broadband coverage map shows that over 14 million homes and businesses lack mobile 5G coverage. The FCC sought comment on how to define the areas that will be eligible for support in the 5G Fund Phase I auction and proposed to modify the metric used to accept bids and identify winning bids.

Auctions

The FCC granted the first batch of new, flexible-use, county-based overlay wireless licenses made available in the 2.5 GHz auction, Auction 108. The FCC granted 51 of the 68 total long-form applications received from winning bidders in Auction 108. Of the 51 applications granted, 15 applicants obtained small business bidding credits and 23 obtained rural service provider bidding credits.

In a Report and Order, the FCC continued its efforts to bolster mobile and fixed voice and broadband services throughout Puerto Rico and the U.S. Virgin Islands (the Territories). First, the FCC extended the PR Fund and the Connect USVI Fund mobile support for up to two years, with support at 50% of its current monthly support level in the first year and 25% of its current monthly support level in the second year. The FCC also extended phase-down frozen support for fixed voice and broadband providers until December 31, 2025.

In a Report and Order, the FCC established the Enhanced Alternative Connect America Cost Model (A-CAM) program, as well as a rulemaking and inquiry seeking comment on further reforms to the legacy rate-of-return system and methods for modifying the Universal Service Fund's High-Cost program to support ongoing expenses for broadband networks in light of the Bipartisan Infrastructure Law and other recent federal and state efforts. The Enhanced A-CAM program provides universal service high-cost support to participating carriers for deployment of 100/20 Mbps or faster broadband service to all locations served by the program, including some of the most difficult-to-reach areas of the country.

Additional Broadband Related Activities

The FCC adopted an order providing Tribal libraries and other E-Rate participants enhanced access to funding so they can obtain affordable, high-speed broadband services and equipment to connect students and library patrons with online learning opportunities. The updates to the E-Rate program rules included granting E-Rate eligibility to Tribal College and University libraries that also serve as public libraries in their communities; creating an exemption to the competitive bidding requirements for libraries seeking E-Rate support for category two services that total a pre-discount price of $3,600 or less per library per funding year; increasing the maximum category two discount rate to 90% and the category two funding floor to $55,000 for Tribal libraries; adopting a formal definition of "Tribal" within the E-Rate program to better identify Tribal applicants seeking E-Rate funding; and amending the Commission's rules to add a Tribal community representative to the Universal Service Administrative Company (USAC) Board of Directors.

The FCC updated its Mapping Broadband Health in America platform to incorporate maternal health data, enabling policymakers, public health experts, clinicians, researchers, innovators, and other public and private stakeholders to better explore the intersection of broadband and maternal health. This tool is the latest step in the FCC's efforts to explore the role of broadband connectivity in improving maternal health.

The FCC adopted an Order that continues efforts to bolster mobile and fixed voice and broadband services throughout Puerto Rico and the U.S. Virgin Islands by ensuring universal service support will go to harden and strengthen networks as part of the Bringing Puerto Rico Together Fund and the Connect USVI Fund.

The FCC launched a new pilot program to make it easier for Tribal libraries to apply for broadband funding through the E-Rate program. The FCC's pilot will initially target 20 Tribal libraries that are new to the program or have had challenges applying in the past. The program will provide one-on-one assistance in all aspects of planning and applying for E-Rate support, and help participants once they successfully apply to ensure they are supported during the invoicing and other post-commitment processes.

PROMOTE DIVERSITY, EQUITY, INCLUSION AND ACCESSIBILITY

The FCC will seek to gain a deeper understanding of how the agency's rules, policies, and programs may promote or inhibit advances in diversity, equity, inclusion, and accessibility. The FCC will pursue focused action and investments to eliminate historical, systemic, and structural barriers that perpetuate disadvantaged or underserved individuals and communities. In so doing, the FCC will work to ensure equitable and inclusive access and facilitate the ability of underserved individuals and communities to leverage and benefit from the wide range of opportunities made possible by digital technologies, media, communication services, and next-generation networks. In addition, the FCC recognizes that it is more

effective when its workforce reflects the experience, judgment, and input of individuals from many different backgrounds. Advancing equity is core to the agency's management and policymaking processes and will benefit all Americans.

The FCC sought comment on next steps to promote and facilitate equal access to broadband internet service for everyone, with the goal of creating a framework for combating digital discrimination that has caused harm to historically excluded and marginalized communities. The NPRM sought comment on the Bipartisan Infrastructure Law statutory language as well as proposals put forward in the record developed in response to the FCC's March 2022 Notice of Inquiry (NOI).

Affordable Connectivity Outreach Grant Program

As part of its efforts to encourage participation in the ACP, the Commission established the ACP Outreach Grant Program in order to engage with partners around the country to help inform ACP-eligible households about the program in their local communities, with funding and resources to support such outreach and community engagement. In March 2023, the FCC adopted the ACP Fifth Report and

Order making available a second funding opportunity for the ACP Outreach Grant Program.

The FCC took the following actions related to the ACP Outreach Grant Program:

- Announced final funding allocations for the ACP Outreach Grant Program, Tribal Competitive Outreach Program (TCOP) Round 2 of over $1.2 million.
- Announced final funding allocations for the ACP Outreach Grant Program, National Competitive Outreach Program (NCOP) Round 2 of over $4.3 million. This new funding opportunity for ACP outreach is intended to provide targeted funding towards 12 states and territories where funding minimums were not met during Round 1 as part of the Commission's March 10, 2023 funding announcement.
- Issued two Notices of Funding Opportunities (NOFOs) for up to $10 million, targeting $5 million for the NCOP and $5 million for the TCOP, which are components of the ACP Outreach Grant Program. Eligible NCOP Round 2 applicants were required to submit a complete grant application on or before June 30, 2023 to be considered for funding. Eligible TCOP Round 2 applicants were required to submit a complete grant application on or before July 28, 2023 to be considered for funding.
- Announced that it was targeting approximately $7.445 million for two one-year, pilot outreach grant programs to raise awareness of the ACP. The Commission selected 23 applicants to receive grant funding for the Your Home, Your Internet Pilot Program (YHYI) and 9 applicants to receive grant funding for the ACP Navigator Pilot Program (NPP). The YHYI provided $4.995 million in target funding allocation to increase awareness and encourage participation in the ACP for households receiving federal housing assistance; and the ACP NPP provided $2.449 million in target funding allocations to provide a limited number of neutral, trusted third-party entities, such as schools and school districts, or other local, Tribal or state government entities, to assist consumers in applying for the Affordable Connectivity Program.
- Announced that it was targeting approximately $66 million through the ACP Outreach Grant Program, NCOP and TCOP. The FCC reviewed 350 grant applications to determine the impact of proposed projects against the grant program's goal, objectives, and priorities. As a result of a multi-step review process, the FCC selected 197 applicants representing 50 states and territories to pursue a broad range of outreach projects for a combined targeted funding allocation of $66.022 million.
- Released a NOFO for YHYI and for the ACP NPP as part of the ACP Outreach Grant Program. This NOFO made $5 million available for YHYI and an additional $5 million available for the ACP NPP. Eligible applicants were required to submit a complete grant application on or before January 9, 2023 to be considered for funding.

- Announced the application window for two one-year pilot programs —the Your Home, Your Internet Pilot Program (YHYI) and the ACP Navigator Pilot Program (NPP) —to increase awareness of and facilitate enrollment in the Affordable Connectivity Program and to provide consumers assistance with ACP applications.
- Released a NOFO for two sub-programs, the NCOP and TCOP, as part of the ACP Outreach Grant Program. This NOFO made $60 million available for NCOP and an additional $10 million available for TCOP. Eligible applicants were required to submit a complete grant application on or before January 9, 2023 to be considered for funding.

EMPOWER CONSUMERS

Consumers who are well informed about their rights and what they're buying are more confident and more likely to participate in the digital economy. The FCC will tackle new challenges to consumer rights and opportunities stemming from the COVID-19 pandemic, plans for post-COVID recovery, and digital transitions. The FCC also will pursue effective enforcement and new approaches to protect consumers from unwanted and intrusive communications, phone-based scams, telephone privacy issues, and other trends that affect consumers. The FCC will work to enhance competition and pursue policies that protect the competitive process to improve consumer choice and access to information. The FCC will work to foster a regulatory landscape that fosters media competition, diversity, and localism. The FCC also must work to ensure the availability of quality, functionally equivalent communications services for persons with disabilities.

Robocall Related Actions

The FCC continued to act aggressively to target and eliminate unlawful robocalls:

- The FCC's Robocall Response Team and the Privacy and Data Protection Task Force announced the agency's renewed partnership with international robocall enforcement bodies within the Unsolicited Communications Enforcement Network (UCENet). The Memorandum of Understanding signed by FCC Chairwoman Jessica Rosenworcel demonstrates the agency's commitment to international partnerships in fighting consumer foes that know no borders: robocall scams and data theft. The FCC announcement takes place alongside its partners at the Federal Trade Commission. The FCC and FTC work closely together on consumer protection issues such as combating robocall scams and protecting consumers' privacy and sensitive data.
- The FCC adopted rules to strengthen and modernize the Commission's requirements for Voice over Internet Protocol (VoIP) providers to obtain direct access to telephone numbers. The action adopts important guardrails to reduce access to phone numbers by perpetrators of illegal robocalls, protect national security and law enforcement, safeguard the nation's finite numbering resources, reduce the opportunity for regulatory arbitrage, and further promote public safety.
- The FCC proposed new rules to strengthen consumers' ability to revoke consent to receive both robocalls and robotexts. The NPRM sought to clarify for callers their obligations under the Commission's rules to honor such requests in a timely manner.
- The FCC adopted new rules to further expand call blocking requirements to ensure even greater robocall protections for consumers. The new rules extend several call blocking requirements to include voice service providers not currently covered by FCC rules, including extending the 24-hour traceback requirement to cover all voice service providers.
- The FCC adopted rules to combat illegal robocalls, including enhancing and expanding provider obligations to implement the STIR/SHAKEN caller ID authentication framework. The new rules require intermediate providers that receive unauthenticated IP calls directly from domestic originating providers to use STIR/SHAKEN to authenticate those calls.

- The FCC adopted its first regulations specifically targeting the increasing problem of scam text messages sent to consumers. The new rules will require mobile service providers to block certain robotext messages that are highly likely to be illegal.
- The FCC's Enforcement Bureau announced the opening of a new online portal by which private entities can alert agency enforcement staff of suspicious robocall, robotext, and spoofing campaigns.
- The FCC clarified that callers must obtain a consumer's consent before delivering "ringless voicemail," a message left in a consumer's mailbox without ringing their cell phone.
- The FCC launched an NOI to consider ways to combat illegally spoofed robocalls that pass through non-IP networks. This would fill in the most significant remaining gap in implementing the STIR/SHAKEN framework over phone networks, as STIR/SHAKEN's caller ID authentication standards can only technologically work on IP-based phone networks, leaving a relatively small but still important hole in this critical robocall protection.

The FCC undertook the following enforcement actions with respect to robocalls:

- September 21—Adopted a $116,156,250 fine against a group of parties responsible for nearly 10 million robocalls made for the purposes of generating toll free dialing fees. The FCC's investigation revealed the parties behind the calls included Thomas Dorsher, ChariTel, OnTel, and ScammerBlaster (all of which are jointly liable for the fine). These parties presented themselves as a campaign *against* scam robocalls while in fact illegally robocalling toll free numbers.
- Sept. 19- Accelerated its illegal robocall blocking efforts against voice service provider One Owl Telecom for failing to comply with FCC call blocking rules for gateway providers suspected of carrying illegal traffic. The Enforcement Bureau had already advised other service providers that they may cut off traffic from One Owl if it did not comply and issued a warning to the company. The FCC's Enforcement Bureau issued an initial determination order against One Owl, moving the company one step closer to facing mandatory blocking from other providers – a fate that also faced related entity, One Eye. The FCC may ultimately order all immediate downstream providers to block all traffic from One Owl.
- August 3—Issued a record-breaking $299,997,000 fine against Sumco Panama and nine others for auto warranty scam robocalls. This was the largest fine the agency has ever issued.
- June 7—Rejected a petition to reconsider its $225 million fine against John Spiller and others for transmitting approximately 1 billion robocalls, many of them which were illegally spoofed. The robocalls falsely claimed to offer health insurance plans from well-known health insurance companies such as Blue Cross Blue Shield and Cigna.
- June 7- Demanded that Avid Telecom cease originating illegal robocall traffic. Avid Telecom was apparently originating illegal traffic pertaining to elderly care and Medicare.
- June 6- Adopted a $5,134,500 fine against John M. Burkman, Jacob Alexander Wohl, and J.M. Burkman & Associates for making 1,141 unlawful robocalls.
- January 24—Ordered voice service providers to effectively mitigate suspected illegal traffic from PhoneBurner facilitating apparently illegal robocall traffic from real estate brokerage firm MV Realty to targeted consumers. The Bureau also demanded that voice service provider Twilio cease and desist from carrying PhoneBurner's suspected illegal robocall traffic.
- January 11- Demanded that SIPphony and Vultik cease originating illegal robocalls. Each company was apparently originating illegal calls pertaining to student loans.
- December 8—Ordered telecommunications companies to stop carrying robocalls related to known scams targeting student loan holders. This included traffic from Urth Access and associated entities and individuals, which investigators believed generated upwards of 40% of student loan debt robocalls in October.
- October 3—Ordered seven voice service providers adequately implement robocall measures, or face removal from the Robocall Mitigation Database.

Additional Enforcement Actions

The FCC undertook a number of enforcement actions and investigations in fulfilling its mission to enforce the Commission's rules and protect consumers' privacy and sensitive data, as well as from illegal or unfair practices. Results of those actions and investigations included:

- July 28—A proposed fine of $20 million against Q Link Wireless LLC and Hello Mobile Telecom LLC for apparent violations of FCC rules that require carriers to authenticate customers' identity before providing online access to Customer Proprietary Network Information (CPNI).
- July 20- A proposed fine of $400,000 against Westel, Inc. for failing to file Quarterly and Annual Worksheets and failing to fully respond to Enforcement Bureau inquiries.
- July 21- Nine warnings to landowners and property managers in the Miami area for apparently allowing illegal broadcasting from their properties. The Notices of Illegal Pirate Radio Broadcasting targeted properties identified by Enforcement Bureau field agents as sources of pirate radio transmissions.
- May 30—A proposed fine of more than $1.4 million against PayG for apparently failing to pay Universal Service Fund (USF), Telecommunications Relay Service Fund (TRS Fund), North American Numbering Plan (NANP), and federal regulatory fees when payments were due.
- May 1—Proposed $8,778,527.39 in fines against 22 applicants in the Rural Digital Opportunity Fund Phase I Auction (Auction 904) for apparently violating Commission requirements by defaulting on their bids between May 3, 2022 and December 16, 2022.
- April 25—Sixteen warnings to landowners in the New York City/New Jersey metro area for apparently allowing illegal broadcasting from their property.
- March 15—Over $2 million in proposed fines under the Preventing Illegal Radio Abuse Through Enforcement Act (PIRATE Act) against three pirate radio operators.
- February 16-Fox Corporation's full payment of a proposed $504,000 penalty for transmitting Emergency Alert System (EAS) tones during a Fox NFL promotional segment in the absence of an actual emergency.
- Jan 17–A proposed $62 million penalty against Q Link Wireless LLC for its apparent violation of Emergency Broadband Benefit Program rules by seeking and receiving reimbursement for connected devices in excess of the market value.
- December 12—Proposed fines against 12 phone companies that apparently failed to submit timely phone number disconnection information to the Reassigned Number Database.
- November 1-A Forfeiture Order of $518,283, fining Gray TV, licensee of stations KYES-TV, Anchorage, AK and KTUU-TV, Anchorage, AK, for its violation of the FCC's prohibition against owning two top-four television stations in the same Nielsen Designated Market Area (DMA).

The FCC's Enforcement Bureau took the following actions with respect to settlements and consent decrees:

- July 21- A settlement of $24,000 to resolve its investigation into whether Frontier Communications Parent, Inc. failed to deliver 911 calls during a 911 outage in June 2022 in Arizona.
- Sept 22- A settlement of an additional $7,500,000 with T-Mobile US, Inc. for its failure to comply with the FCC's Lifeline rules regarding the submission of claims for ineligible subscribers due to non-usage after the effective date of the 2020 Consent Decree.
- May 11—A settlement of over $42 million with GCI Communication Corp. that includes a repayment to the Universal Service Fund (USF) of more than $26 million and a credit of $16 million for withdrawal of applications and various appeals to resolve the FCC's investigation into the company's Rural Health Care Program practices, including rate determination and competitive bidding violations.
- April 24—A settlement of $227,000 to resolve its investigation into whether Shenandoah Telecommunications Company (Shentel) failed to deliver 911 calls during a 911 outage in April 2022 in four West Virginia counties.

- October 14- Announced five settlements with covered 911 service providers, which paid penalties for failing to timely file their required 911 service reliability certification in 2021. Companies agreed to pay penalties ranging from $3,500 to $6,000.
- October 20—A settlement with Truphone and civil penalty of $600,000 to resolve the Commission's Notice of Apparent Liability issued against it earlier this year for failing to disclose accurate ownership stakes held by foreign entities and transferring control of FCC licenses and international section 214 authorization without Commission approval.
- November 2- A settlement with Hill & Smith, Inc for $47,600, resolving an investigation into whether the company violated the Commission's equipment marketing rules by marketing light-emitting diode (LED) signs used for transportation safety purposes without the required equipment authorization, labeling and user manual disclosures, and for failing to retain required test records.
- December 19- A settlement of $950,000 to resolve its investigation into Cellco Partnership d/b/a Verizon Wireless's construction of wireless facilities without complying with the Commission's environmental and historic preservation rules.

Additional Consumer Related Actions

The FCC adopted a Report and Order that approves revised TRS Fund compensation formulas for Video Relay Service (VRS) which enables persons with hearing and speech disabilities who use American Sign Language (ASL) to communicate with voice telephone users through video equipment, rather than through typed text. The Commission approved the revised formula for a five-year period through June 30, 2028 to ensure that VRS users can access highly qualified ASL interpreters and benefit from improved communications technology. With several key changes in the VRS compensation plan, VRS providers will have the resources to strengthen VRS interpreting and find functionally equivalent solutions for video conferencing, emergency calling, and other technologically challenging uses of VRS.

The FCC adopted rules to help ensure that the public has access to the 988 Suicide & Crisis Lifeline if a service outage occurs. The new rules require service providers that have a role in delivering 988 calls to report outages that potentially affect 988 service, which will hasten service restoration and enable officials to inform the public of alternate ways to contact the 988 Lifeline.

June 21- The FCC proposed to enhance pricing transparency by requiring cable operators and direct broadcast satellite (DBS) providers to specify the "all-in" price for service in their promotional materials and on subscribers' bills. This proposal would require cable operators and DBS providers to clearly and prominently display the total cost of video programming service.

The Chairwoman announced the establishment of the new Privacy and Data Protection Task Force. This FCC staff working group comprises representatives from across the agency that handle topics including enforcement, supply chain vulnerabilities, equipment authorization, data breach reporting requirements, and undersea cables. The Task Force coordinates on the rulemaking, enforcement, and public awareness needs in the privacy ad data protection sectors.

The FCC voted to require video conferencing platforms, like Zoom, Microsoft Teams, or Webex, to comply with the accessibility requirements under the Communications Act and agency rules that govern interoperable video conferencing services. The action includes several steps to ensure that video conferencing is accessible to all.

The FCC proposed rules to implement key provisions in the Safe Connections Act to support survivors of domestic abuse and other related crimes seeking to maintain critical connections with friends, family, and support networks. The proposed rules would help survivors obtain separate service lines from shared accounts that include their abusers, protect the privacy of calls made by survivors to domestic abuse hotlines, and provide support for survivors who suffer from financial hardship through our affordability programs.

The FCC sought comment on the Commission's expanded authority over incarcerated people's communications services, as set forth in the Martha Wright-Reed Just and Reasonable Communications Act of 2022. The new law gives the FCC authority to combat unjust and unreasonable rates and charges for voice and video calls, including calls within a state's borders, where previously the agency had ratemaking authority only over voice calls between states and foreign locations. The NPRM and Order begin the process of implementing the law, which requires the Commission to adopt just and reasonable rates no earlier than 18 months and no later than 24 months after the law's January 5, 2023 enactment.

The FCC proposed to expand audio description regulations to all remaining market areas where the requirement does not already apply. The proposal would ensure that video programming is more accessible to individuals who are blind or visually impaired, helping them be more connected, informed, and entertained by television programming.

The FCC proposed rules to help ensure that the public has access to the 988 Suicide & Crisis Lifeline if a service outage occurs. The proposed rules would require 988 service providers to report outages that potentially affect 988 service, which would hasten service restoration and enable officials to inform the public of alternate ways to contact the 988 Lifeline.

The FCC approved an NPRM for a new three-year plan for compensation rates for Internet Protocol Captioned Telephone Service (IP CTS). This service, supported through the Interstate TRS Fund, allows individuals who are deaf and hard of hearing to read captions of phone conversations as they occur.

The FCC unveiled new rules that will for the first time require broadband providers to display easy-to-understand labels to allow consumers to comparison shop for broadband services. The Order creates rules that require broadband providers to display, at the point of sale, labels that show key information consumers want–prices, speeds, fees, data allowances, and other critical information. The labels resemble the well-known nutrition labels that appear on food products.

The FCC announced that it is improving its Reassigned Numbers Database by making it easier for callers to check large volumes of numbers before calling them to ensure they have not been reassigned. To do so, the FCC is reducing prices at higher query volumes and offering an annual subscription at a further discounted price. The database is a first-of-its-kind resource to help callers reach their intended recipients while avoiding potentially costly liability for violations of the Telephone Consumer Protection Act.

ENHANCE PUBLIC SAFETY AND NATIONAL SECURITY

The FCC will pursue policies to promote the availability of secure, reliable, interoperable, redundant, and rapidly restorable critical communications infrastructure and services. The FCC also will promote the public's access to reliable 911 and emergency alerting, and support public safety's access to first responder communications. The FCC will work in coordination with Federal and state, local, Tribal, and territorial government partners, and industry stakeholders to support disaster response and to ensure the nation's defense and homeland security.

The FCC took several actions to improve public safety and national security:

The Enforcement Bureau issued an advisory reminding certain regulated entities with reportable foreign ownership, investment, or control of their obligations to file timely, accurate ownership information with the Commission to protect U.S. national security.

The FCC acted to waive certain rules and provide relief to E-Rate, Emergency Connectivity Fund, Rural Health Care, Lifeline, Affordable Connectivity Program, USF Contributions, and High-Cost participants impacted by Hurricane Idalia.

The FCC took quick action to further assist those affected by the Hawaii Wildfires by temporarily waiving certain Lifeline program eligibility rules to ensure that consumers receiving federal disaster assistance can easily apply for and enroll in the Lifeline program. The wildfires caused significant power outages and property damage in homes, schools, libraries, and health care facilities throughout the impacted areas.

The FCC acted to waive certain rules and provide relief to E-Rate, Emergency Connectivity Fund, Rural Health Care, Lifeline, Affordable Connectivity Program, USF Contributions, and High-Cost participants impacted by the wildfires in Hawaii.

The FCC acted to waive certain rules and provide relief to E-Rate, Emergency Connectivity Fund, Rural Health Care, Lifeline, Affordable Connectivity Program, USF Contributions, and High-Cost participants impacted by Typhoon Mawar.

The FCC proposed rules to advance the transition to Next Generation 911, help ensure that the nation's 911 system functions effectively, and support the deployment of advanced 911 capabilities—including video, text, and data.

The FCC proposed rules to improve Wireless Emergency Alerts (WEA) by making them available in more than a dozen languages, adding increased functionality, and ensuring that participating wireless providers send the alerts in a reliable, accurate, and timely manner.

The FCC launched a proceeding to strengthen the Commission's rules for notifying customers and federal law enforcement of breaches of customer proprietary network information (CPNI). The Commission will look to better align its rules with recent developments in federal and state data breach laws covering other sectors.

The FCC proposed rules to more precisely route wireless 911 calls and texts to 911 call centers, which can result in faster response times during emergencies.

The FCC adopted new rules prohibiting communications equipment deemed to pose an unacceptable risk to national security from being authorized for importation or sale in the United States.

The FCC adopted rules to promote public safety by ensuring that 911 call centers receive timely and useful notifications of network disruptions that affect 911 service. These notifications will help 911 call centers maintain emergency services and inform the public when to use alternatives to call 911.

The FCC proposed rules to bolster the operational readiness and security of the nation's public alert and warning systems, the EAS and WEA. The Commission proposed to protect against cyberattacks by requiring EAS participants, such as broadcasters and cable providers, to report incidents of unauthorized access to their EAS equipment to the Commission within 72 hours. The NPRM also proposes requiring EAS participants and the wireless providers that deliver WEAs to annually certify that they have a cybersecurity risk management plan and implement sufficient security measures for their alerting systems.

The FCC proposed a plan to extend certain Universal Service Fund support to eligible mobile and fixed carriers in Puerto Rico and the U.S. Virgin Islands to ensure consumers have access to advanced telecommunications services in the face of hurricanes and other natural disasters.

The FCC acted to waive certain rules and provide relief to E-Rate, Emergency Connectivity Fund, Rural Health Care, Lifeline, Affordable Connectivity Program, USF Contributions, and High-Cost participants impacted by Hurricane Ian.

ADVANCE AMERICA'S GLOBAL COMPETITIVENESS

The FCC will take action to promote investment and advance the development and deployment of new communications technologies, such as 5G, that will allow the nation to remain a global leader in an increasingly competitive, international marketplace. The FCC will identify incentives and policies to close security gaps and accelerate trustworthy innovation. The FCC will work with its federal partners to advocate for US interests abroad.

The FCC adopted new rules to ensure commercial space launches have the spectrum resources they need for reliable communications. The rules adopt a new allocation in the 2025 to 2110 MHz band for ground-to-launch vehicle telecommand uses necessary to support space launch operations. The new rules also make the entire 2200 to 2290 MHz band available for launch telemetry. In a Further Notice, the FCC explored steps to further optimize spectrum use for the new Space Age, including the potential for additional spectrum bands to support commercial space launch operations and the possibility of extending the licensing framework to payload activities and sub-orbital operations.

The FCC adopted new rules to expedite and streamline its processing of space and earth station applications to meet the growing needs of today's commercial space sector. The new rules also lay the groundwork for the Space Bureau's new Transparency Initiative, which will provide information and guidance to potential applicants in order to prepare them to successfully obtain authorizations for space and earth stations. This initiative will reduce administrative burdens on both applicants and Commission staff and further expedite the processing of applications.

The FCC launched an NOI designed to advance its understanding of non-federal spectrum usage and take advantage of new data sources, methods, and technologies in a cost-effective, accurate, scalable, and actionable manner. The NOI will explore how these new tools can promote effective spectrum management and identify new opportunities for innovation.

In a Third Report and Order in the Next Generation Broadcast Television (ATSC 3.0 or Next Gen TV) docket, the FCC made changes to the Next Gen TV rules designed to preserve over-the-air (OTA) television viewers' access to the widest possible range of programming while also supporting television broadcasters' transition to the next generation of broadcast television technology.

The FCC launched a proceeding to consider innovative sharing models in 500 megahertz of spectrum in the 42 GHz band. As the spectrum between 42-42.5 GHz is largely unused, the FCC proposed exploring an innovative, non-exclusive spectrum access model in this greenfield spectrum, which is ideal for experimentation due to the lack of incumbent licensees.

The FCC adopted new, more flexible rules for the 60 GHz spectrum band to support state-of-the-art radar technology. Many cutting edge technologies rely on short-range radars to support important applications, including alerting drivers to children left in dangerously hot cars, improving mobility and health outcomes by detecting hand gestures and respiratory functions, and assisting drones in construction, emergency rescue, and commercial settings. The new rules will accelerate the time for these devices to reach the marketplace.

The FCC took a holistic approach to expanding use of over 1 gigahertz of prime mid-band spectrum in the 12 GHz band by ensuring stable spectrum access for current and next-generation satellite service while also empowering advanced terrestrial wireless services. The FCC adopted rules to preserve spectrum between

12.2-12.7 GHz for current and future satellite services. The FCC also proposed policies which would position the 12.7-13.25 GHz band to support flexible terrestrial wireless use, including 6G wireless services.

The FCC adopted rules to deter arbitrage of the access charge system that is designed to compensate carriers for use of their networks by other carriers. The rules adopted today are aimed at ending harmful arbitrage practices that raise costs for long-distance carriers and their customers.

The FCC proposed new rules that would require, for the first time, companies with existing authorizations to provide international telecommunications services to and from the United States to file renewal applications at the FCC. The proposed rules aim to enable up-to-date review of international Section 214 authorizations to fully take into account rapidly changing national security, law enforcement, and other considerations.

The FCC adopted new rules to support competition and cooperation in spectrum usage by satellite systems. The new rules will set forth reforms that will govern how non-geostationary satellite orbit, fixed-satellite service (NGSO FSS) systems will function in a shared spectrum environment. These updates will provide certainty for operators and facilitate innovation in system design, which will ultimately benefit broadband users.

To facilitate the integration of satellite and terrestrial networks, the FCC proposed a new regulatory framework for Supplemental Coverage from Space (SCS). Through this approach, satellite operators collaborating with terrestrial service providers would be able to obtain Commission authorization to operate space stations on currently licensed, flexible-use spectrum allocated to terrestrial services, thus expanding coverage to the terrestrial licensee's subscribers, especially in remote, unserved, and underserved areas.

The Infocomm Media Development Authority of Singapore and the FCC signed a Memorandum of Understanding (MOU) to enhance cooperation between both countries. The MOU aims to promote bilateral cooperation on telecommunications regulatory policies and covers regulatory cooperation and information exchange in emergent areas of communications and connectivity.

The FCC proposed rules to enable wireless communications for unmanned aircraft system use in the 5030-5091 MHz band and sought comment on whether measures are necessary to facilitate such use on flexible-use wireless networks. Unmanned aircraft systems today primarily operate under unlicensed and low-power wireless communications rules or experimental licenses.

The FCC launched a proceeding to streamline its review processes for satellite applications. As the space economy booms, the agency will look to further update its rules and processes to ensure that its critical review responsibilities are met as efficiently and effectively as possible.

The FCC's Office of Engineering and Technology conditionally approved thirteen proposed automated frequency coordination (AFC) database systems to finalize development for operations in the 6 GHz band and prepare for the testing phase. These AFC systems manage spectrum access for 6 GHz band standard-power unlicensed devices. The FCC's recent rule changes expanded unlicensed use in the 5.925-6.425 GHz and 6.525-6.875 GHz portions of the 6 GHz band to allow standard-power devices under the control of an AFC. Wi-Fi 6E builds upon previous Wi-Fi updates and makes use of wider channels to provide gigabit-plus speeds, more simultaneous connections, and better security.

The FCC voted to launch a proceeding to explore repurposing up to 550 megahertz in the 12.7 to 13.25 GHz band (12.7 GHz band) for next-generation wireless services. The FCC expects that this inquiry is the first step in providing for more intensive use of the 12.7 GHz band, unlocking a significant expanse of valuable mid-band frequencies that may play a key role in delivering on the promise of next-generation wireless services, including 5G, 6G, and beyond.

FOSTER OPERATIONAL EXCELLENCE

The FCC should be a model for excellence in government by effectively managing its resources, maintaining a commitment to transparent and responsive processes that encourage public involvement and decision-making that best serves the public interest, and encouraging a culture of collaboration both internally and across government agencies.

The FCC updated its rules for full power and Class A stations to reflect the current operating environment, including the transition from analog to digital-only operations and the post-incentive auction transition to a smaller television band with fewer channels. The Order also restructured a portion of the Commission's rules, largely consisting of the technical licensing, operating, and interference rules for full power television.

The FCC adopted an NPRM that seeks to give digital FM and Low Power FM stations more flexibility to increase digital power levels. This would encourage more FM broadcasters to adopt digital technology and would make digital broadcasts available to a greater number of listeners.

The FCC announced that the Media Bureau has designated certain questions related to the pending applications involving Standard General, TEGNA, and Cox Media Group to its administrative law judge. The pending applications involve a series of transactions that would result in Standard General's acquisition of 64 full-power TV stations and two full-power radio stations currently owned and operated by TEGNA.

The FCC released an Order adopting plans to modernize the FCC by establishing a Space Bureau and Office of International Affairs. The reorganization will better support the needs of the growing satellite industry, promote long-term technical capacity at the FCC, and help the agency navigate 21st century global communications policy. As part of this plan, the agency eliminated the International Bureau and incorporated that team into the new bureau and office.

The FCC published a Communications Marketplace Report to assess generally the state of competition across the broader communications marketplace. With the 2022 Communications Marketplace Report, the Commission fulfilled its mandate to provide a comprehensive evaluation of the state of competition in the communications marketplace.

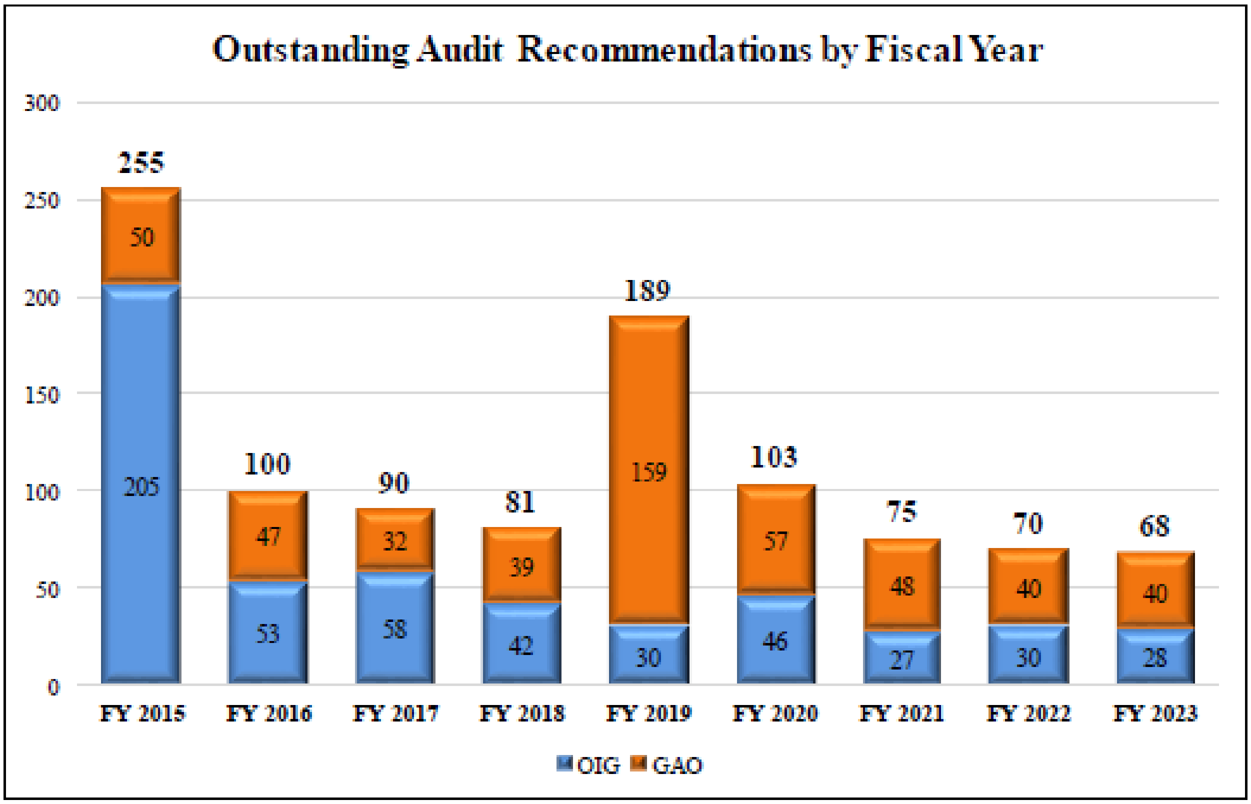
The FCC amended its rules to ensure that TV broadcast stations and pay TV providers are using the same data to determine which stations are "local." The Report and Order removes outdated publications from the FCC's rules and replaces them with Nielsen's monthly Local TV Station Information Report.

The FCC released a Second NPRM to strengthen the process for identifying foreign governmental entities in the wake of the D.C. Circuit's ruling in *National Association of Broadcasters (NAB) v. FCC*. The NPRM proposed a certification process with standardized language for broadcasters and lessees to use in order to demonstrate that the appropriate inquiries have been made in determining whether a foreign governmental entity has sponsored the programming.

Overall Status of Audit Recommendations

The chart below shows the number of audit recommendations outstanding, both public and non-public, from various audits conducted by FCC's Office of Inspector General (OIG) and the Government Accountability Office (GAO) as of September 30, 2023. 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 2023, the Commission implemented (closed) 45 outstanding recommendations, received 43 new recommendations, and finished the fiscal year with a total of 68 open recommendations. In FY 2019, there was a large number of new recommendations received just before the fiscal year end, which led to the increased number of open recommendations in that fiscal year.

As can be seen by the reduction of open recommendations at the end of FY 2023, the Commission has been actively working to implement (close) open recommendations as quickly as possible. The Commission will continue to work as quickly as possible to implement (close) the outstanding recommendations.



Management Assurances

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 2023 auditors' report identified a repeated significant deficiency in Information Technology controls collectively related to risk management, configuration management, identity and access management, and information security continuous monitoring; and a new significant deficiency in financial controls related to an accounting treatment of withheld payments and accrual. The Commission will make every effort in FY 2024 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 2023, 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. The Commission implemented risk assessment tools to update its pre-existing processes for internal control evaluation, both at the Commission and at its reporting components, USF and TRS. The Commission'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 Commission implemented an entity level risk assessment tool that is completed each fiscal year by its Bureaus and Offices as well as its reporting components. Furthermore, utilizing the GAO's Fraud Risk Framework the Commission continued Fraud Risk Management within the agency, including the new appropriated programs: Emergency Connectivity Fund, the Secure & Trusted Communications Network Reimbursement Program, and the Affordable Connectivity Program.

In FY 2023, FCC formed a Fraud Risk Group (FRG) to serve as the governing body for FCC's Fraud Risk Management. Additionally, FCC's Senior Management Council (SMC) continued its oversight of the Commission's entity and program level risk assessments as part of its overall Enterprise Risk Management (ERM) process pursuant to OMB Circular A-123. The SMC includes representatives from across the Commission's Bureaus and Offices to more fully integrate the Commission's internal control assessment processes into the operations of the 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 the eighteenth consecutive year, the Commission understands that maintaining proper internal control 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 and the *Federal Financial Management Improvement Act of 1996* (FFMIA) requires agencies to report on whether their financial management systems provide reliable, consistent disclosure of financial data and conform to government-wide requirements. In FY 2023, 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

Commission management is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of FMFIA. The Commission 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 Commission can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively and financial management systems conform to government-wide standards as of September 30, 2023.

Jessica Rosenworcel
Chairwoman
November 15, 2023

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 of 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.

Genesis continues to support the accounting for the spectrum auctions program at the Commission, including the activities under the Spectrum Act, which provides for the reimbursement of relocation expenses for eligible entities. The Commission Registration System (CORES) allows eligible entities to seek reimbursement and enter their banking information into CORES online, and allows an entity to view their available balance for reimbursement along with the history of payments made to the entity. Additionally, Genesis supports efficiency initiatives, including the 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, the Treasury G-Invoicing Initiative and the IRS Employer Identification Number Initiative (EIN.) Genesis also provides self-service capability for the Bureaus and Offices to execute accounting functions, including business analytics for decision making.

In support of the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136), the Consolidated Appropriations Act, 2021 (P.L. 116-260), the American Rescue Plan Act of 2021 (P.L. 117-2), and the Infrastructure Investment and Jobs Act, 2021 (P.L. 117-58), the Commission continues to leverage the scalable functionality of Genesis and IPP to quickly accommodate requirements for the five programs—COVID-19 Telehealth Program (Round 2), Emergency Broadband Connectivity Fund – Emergency Broadband Benefit Program, Emergency Connectivity Fund, the Secure & Trusted Communications Network Reimbursement Program, and the Affordable Connectivity Program—mandated to the Commission under these laws. Financial Operations systems continue to take on an expanding role in support of the Commission's mission, including these five programs. Additional financial system activities continue to support these programs in the areas of: eligibility determinations of requested services and items, applicant registration process, applicant registration with the federal System for Award Management (SAM), utilization of the Treasury's Do Not Pay (DNP) system, and processing applicants' reimbursement requests.

The Commission continues to optimize financial management system controls through ongoing monitoring reviews, business process engineering initiatives and implementation of best practices, including the hosting of Genesis in a Cloud environment. In FY 2023, additional Commission financial legacy systems were decommissioned, continuing to decrease operations and maintenance costs and supporting modernization initiatives. Additionally, the Commission continues to maintain a steady state within the core financial system and fully utilizes Genesis' 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 the eighteenth consecutive year, the Commission's financial statements have received an unmodified or clean audit opinion from the independent external auditors hired by the Office of Inspector General.

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—Revised*, dated May 19, 2023.

This section presents a summary analysis of key financial statement core business activities. The principal financial statements include: the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position and Custodial Activity, and the Combined Statement of Budgetary Resources. 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 Fiscal Years (FYs) 2023 and 2022 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 2023
Consolidated
(Dollars in Thousands)

Net Financial Condition	FY 2023	FY 2022	Increase (Decrease)	Percentage Change
Intragovernmental				
Fund Balance with Treasury	$ 22,556,872	$ 31,764,119	$ (9,207,247)	-29%
Accounts Receivable, net	3	8	(5)	-63%
Advances and Prepayments	3,325	1,726	1,599	93%
Total Intragovernmental	$ 22,560,200	$ 31,765,853	$ (9,205,653)	-29%
Other than intragovernmental:				
Accounts Receivable, net	$ 807,909	$ 685,877	122,032	18%
General Property, Plant and Equipment, net	104,587	95,084	9,503	10%
Advances and Prepayments	13,024	13,024	-	-
Total other than intragovernmental	$ 925,520	$ 793,985	$ 131,535	17%
Total Assets	**$ 23,485,720**	**$ 32,559,838**	$ (9,074,118)	-28%
Intragovernmental				
Accounts Payable	$ 264	$ 103	$ 161	156%
Advances from Others and Deferred Revenue	522	-	522	100%
Liability to the General Fund of the U.S. Government for custodial and other non-entity assets	3,091,621	3,114,831	(23,210)	-1%
Other liabilities	4,545	4,307	238	6%
Total Intragovernmental	$ 3,096,952	$ 3,119,241	$ (22,289)	-1%
Other than intragovernmental:				
Accounts Payable	$ 1,145,956	$ 992,321	$ 153,635	15%
Federal Employee Benefits Payable	26,421	24,822	1,599	6%
Advances from Others and Deferred Revenue	385,136	505,520	(120,384)	-24%
Prepaid Contributions	64,111	102,265	(38,154)	-37%
Accrued Liabilities for USF and TRS	558,438	596,528	(38,090)	-6%
Deposit/Unapplied liability	2,945	2,509	436	17%
Other	25,804	26,459	(655)	-2%
Total other than intragovernmental	$ 2,208,811	$ 2,250,424	$ (41,613)	-2%
Total Liabilities	**$ 5,305,763**	**$ 5,369,665**	$ (63,902)	-1%
Unexpended Appropriations-Funds from Dedicated Collections	$ 753,872	$ 759,909	$ (6,037)	-1%
Unexpended Appropriations-Funds from other than Dedicated Collections	10,781,318	19,526,104	(8,744,786)	-45%
Total Unexpended Appropriations	$ 11,535,190	$ 20,286,013	$ (8,750,823)	-43%
Cumulative Results of Operations-Funds from Dedicated Collections	6,332,446	6,642,083	(309,637)	-5%
Cumulative Results of Operations-Funds from other than Dedicated Collections	312,321	262,077	50,244	19%
Total Cumulative Results of Operations	$ 6,644,767	$ 6,904,160	$ (259,393)	-4%
Total Net Position	**$ 18,179,957**	**$ 27,190,173**	$ (9,010,216)	-33%
Total Liabilities and Net Position	**$ 23,485,720**	**$ 32,559,838**	$ (9,074,118)	-28%
Net Cost of Operations	**$ 18,037,917**	**$ 15,492,591**	$ 2,545,326	16%
Total Budgetary Resources	**$ 13,417,769**	**$ 27,383,360**	$ (13,965,591)	-51%

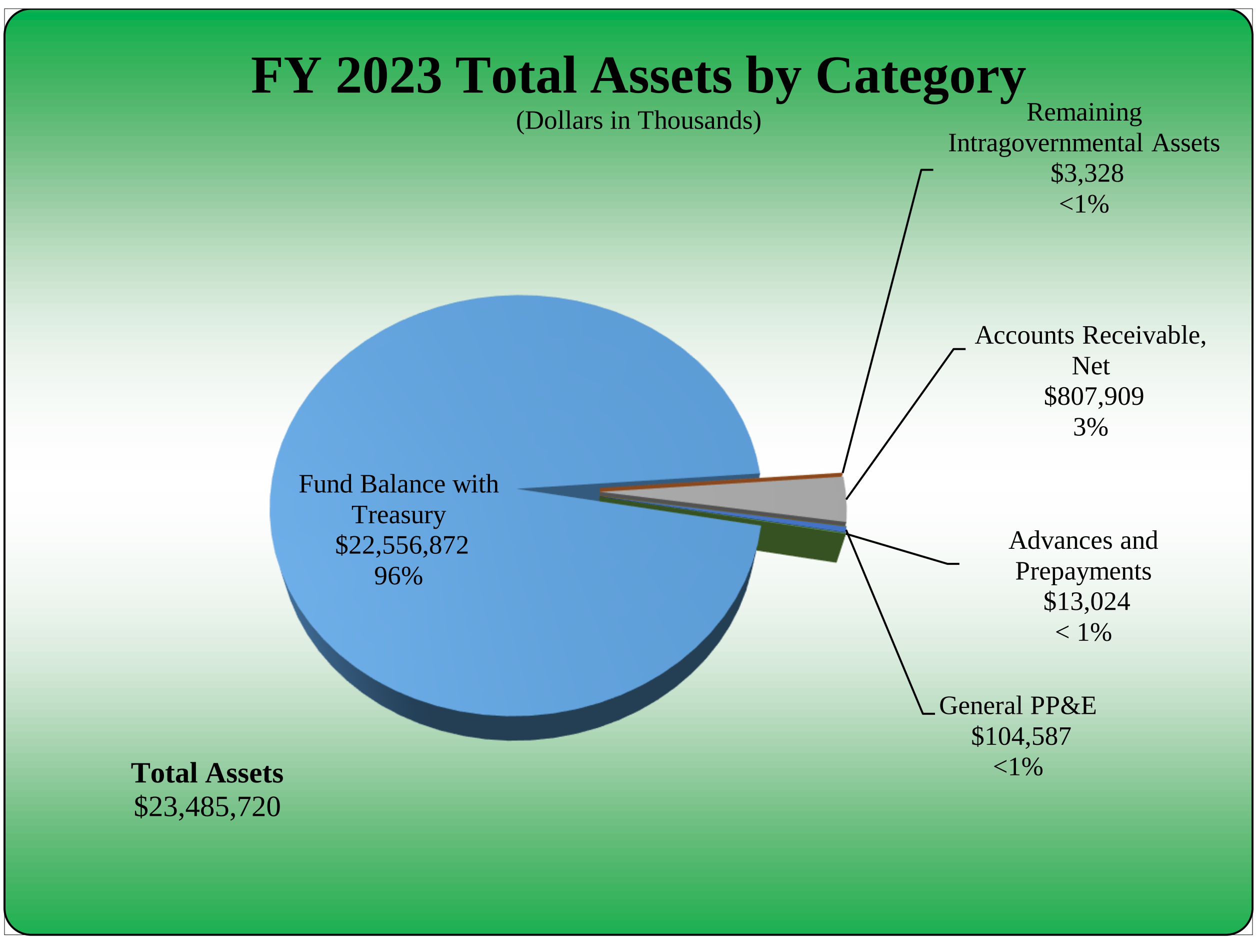
The following is a brief description of the nature of each required financial statement and its relevance, including a description of certain significant balances on Commission operations.

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 96 percent of total assets as of September 30, 2023.

The pie chart below presents the total assets of the Commission as of September 30, 2023. The Fund Balance with Treasury of $22,557 million is primarily related to the Universal Service Fund (USF), the Affordable Connectivity Fund – Affordable Connectivity Program (ACF-ACP), the Emergency Connectivity Fund (ECF), the Supply Chain Reimbursement Program (SCRP), and the spectrum auctions program.

There is a decrease in Fund Balance with Treasury in FY 2023 when compared to FY 2022. The decrease is primarily related to increased program participant reimbursement activities throughout FY 2023 for the ECF, the ACF-ACP, and the SCRP.

The Accounts Receivable balance of approximately $808 million is primarily due to USF receivables totaling approximately $672 million.



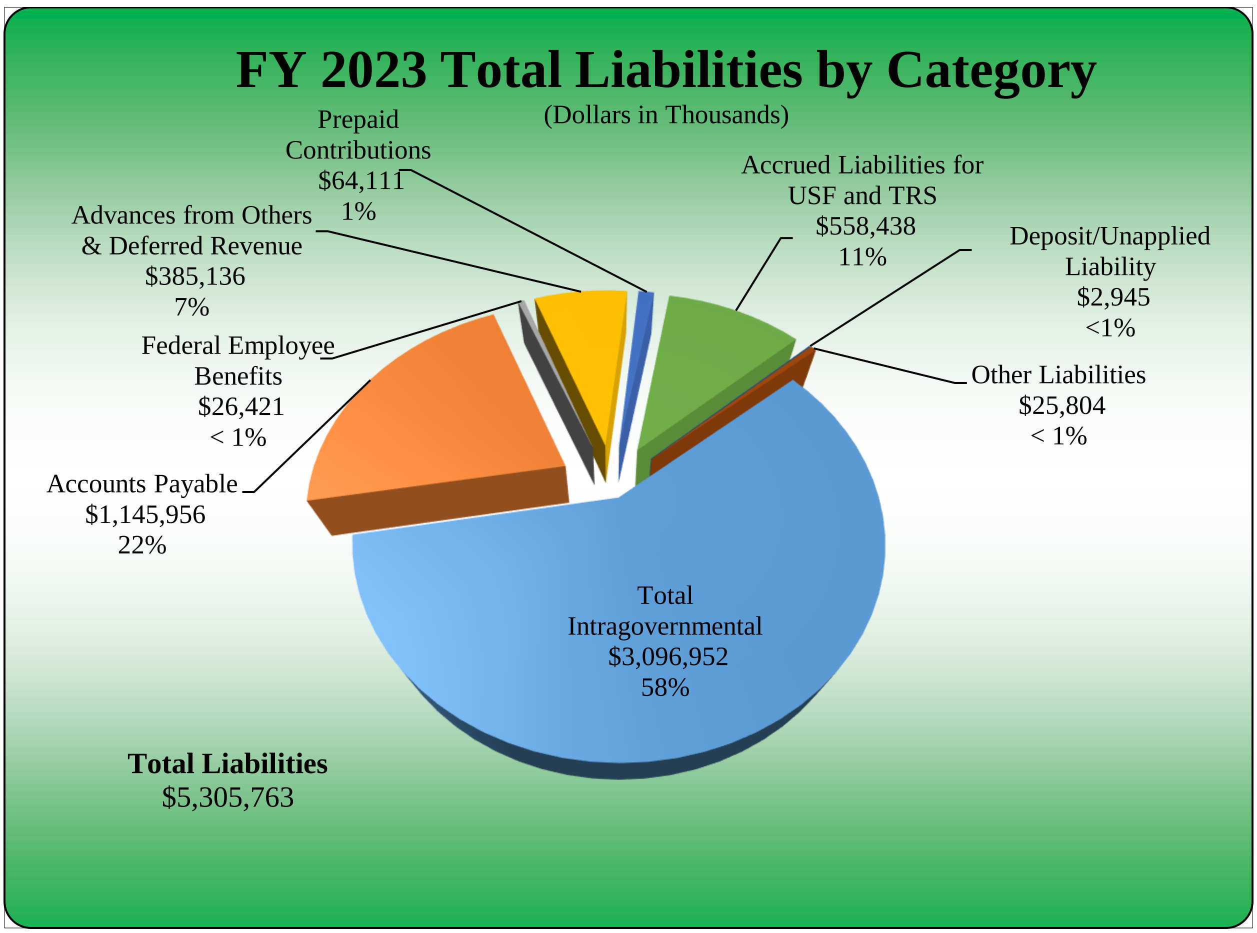
The pie chart below presents the total liabilities of the Commission as of September 30, 2023. The Commission's most significant liabilities are Total Intragovernmental of $3,097 million and Accounts Payable of $1,146 million, which accounted for 80 percent of total liabilities as of September 30, 2023.

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

The Accounts Payable balance is primarily comprised of the expense accrual for ACF-ACP, ECF, the Alternative Connect American Cost Model (A-CAM), A-CAM II support, and the Rural Digital Opportunity Fund (RDOF).

The Accrued Liabilities for USF and TRS represent the expected October (FY 2024) payments for the USF's High Cost Legacy Support, Lifeline Program, and the expected October and November (FY 2024) payments for the TRS Program.

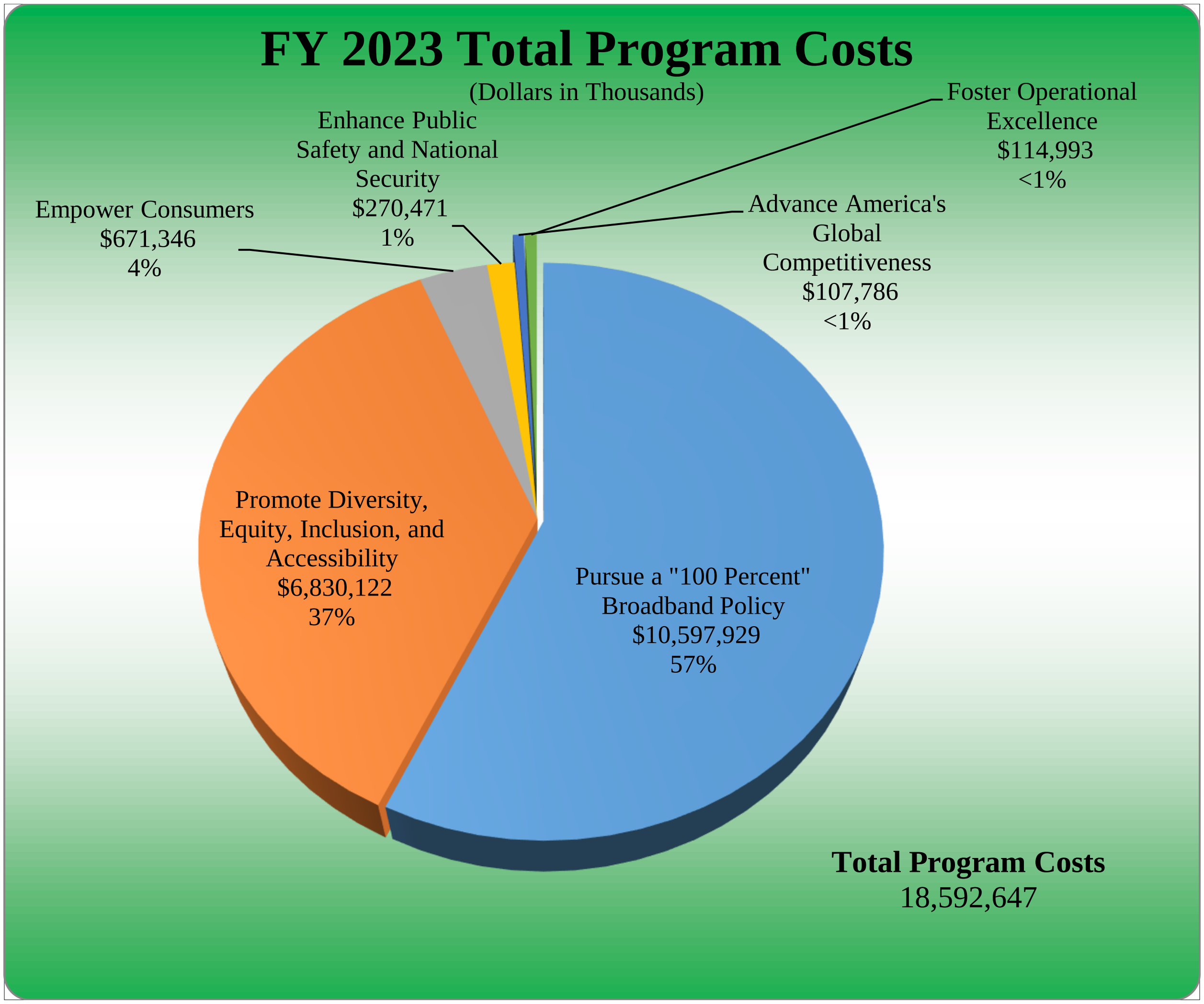
The Advances from Others and Deferred Revenue balance is mainly due to spectrum auction 108 winning bids of licenses that have not been granted as of September 30, 2023.



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 six strategic goals of the Commission: (1) Pursue a "100 Percent" Broadband Policy; (2) Promote Diversity, Equity, Inclusion, and Accessibility; (3) Empower Consumers; (4) Enhance Public Safety and National Security; (5) Advance America's Global Competitiveness; and (6) Foster Operational Excellence. Gross program 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 the strategic goals to Pursue a "100 Percent" Broadband Policy and Promote Diversity, Equity, Inclusion, and Accessibility. The program costs for the TRS are allocated to the strategic goals to Promote Diversity, Equity, Inclusion and Accessibility and Empower Consumers. Due to the cost allocation for USF, Emergency Broadband Connectivity Fund - Emergency Broadband Benefit Program (EBCF-EBBP), ACF-ACP, and ECF, the costs for the strategic goal to Pursue a "100 Percent" Broadband Policy and Promote Diversity, Equity, Inclusion, and Accessibility are significantly higher than the cost of other strategic 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.

There is significant increase in program costs in FY 2023 when compared to FY 2022. The increase is primarily the result of increases in expense for ACF-ACP and SCRP that were partially offset by decreases in expense in ECF and TVBRF.

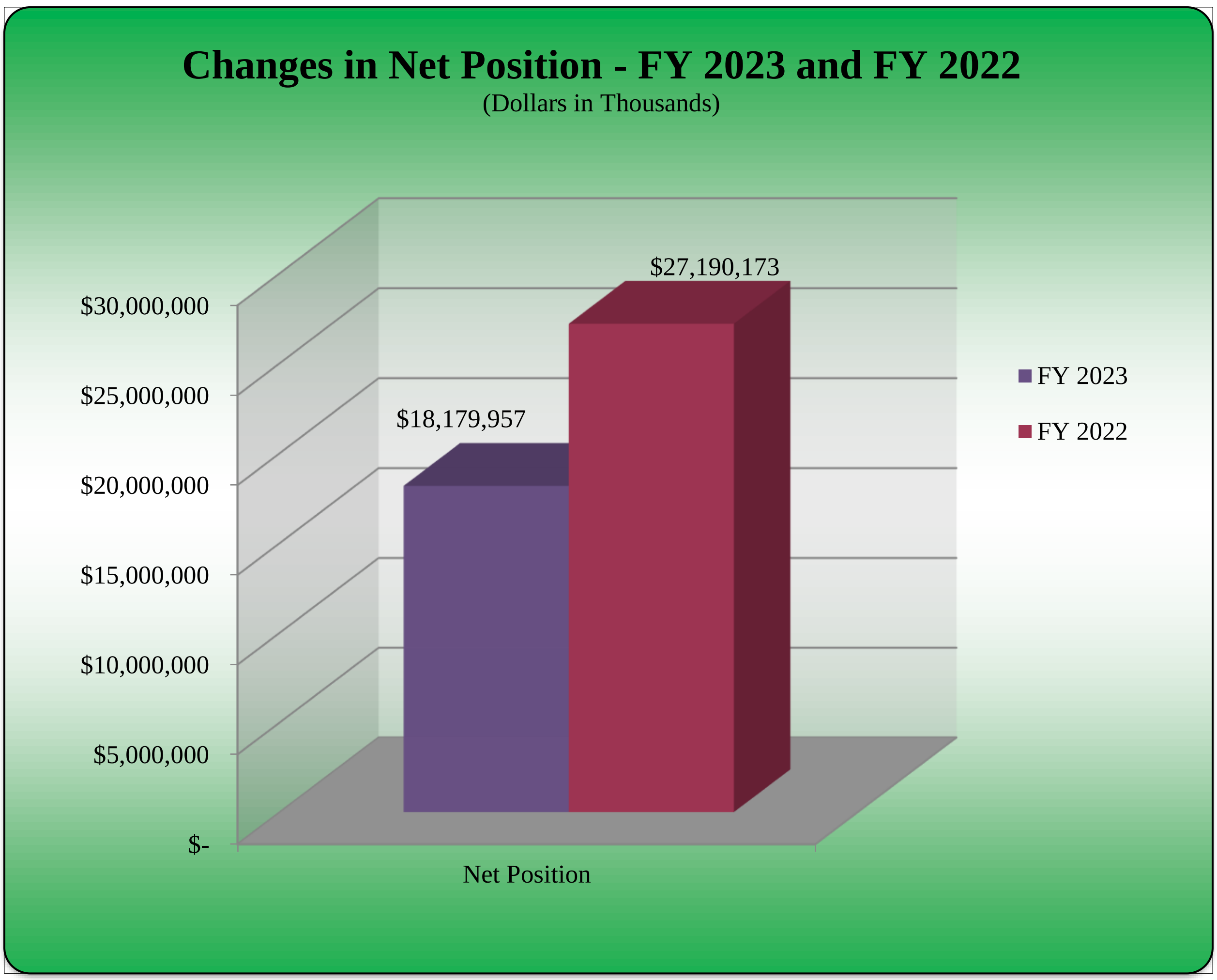
The pie chart below presents the total program costs for each strategic goal.

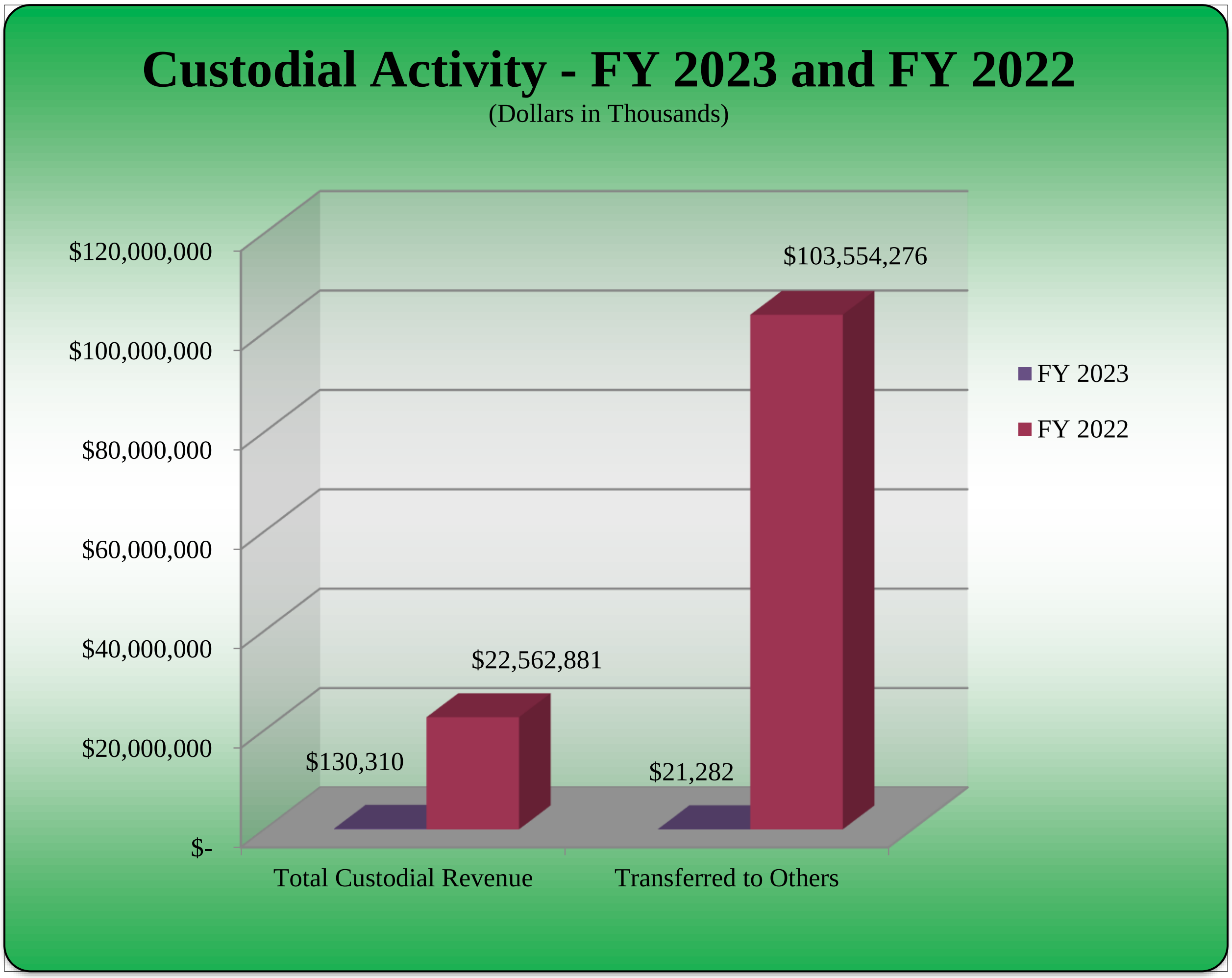

FY 2023 Total Program Costs
(Dollars in Thousands)
Enhance Public Safety and National Security
$270,471
1%
Foster Operational Excellence
$114,993
<1%
Empower Consumers
$671,346
4%
Advance America's Global Competitiveness
$107,786
<1%
Promote Diversity, Equity, Inclusion, and Accessibility
$6,830,122
37%
Pursue a "100 Percent" Broadband Policy
$10,597,929
57%
Total Program Costs
18,592,647

Consolidated Statement of Changes in Net Position and Custodial Activity: This statement presents the Commission's net position and its custodial activity. In FY 2023, the Commission's Net Position decreased by $9,010 million or 33 percent to $18,180 million compared to the net position of $27,190 million for FY 2022. The overall decrease is primarily the result of a decrease in appropriations received and an increase in appropriations used. The decrease in appropriations received is the result of receiving a direct appropriation for the ACF-ACP in FY 2022 and none in FY 2023. The increase in appropriations used is primarily the result of increased activities in ACF-ACP and SCRP for FY 2023.

In FY 2023, the Commission recognized $130 million in custodial revenue and transferred the $21 million in miscellaneous receipts, fines, and penalties to the Treasury General Fund. In FY 2022, the Commission recognized $22,563 million in custodial revenue and transferred $81,089 million from auction 107 and $48 million in miscellaneous receipts, fines, and penalties to the Treasury General Fund. In addition, the Commission transferred $22,418 million from auction 110 to Spectrum Relocation Fund administered by Office of Management and Budget (OMB).

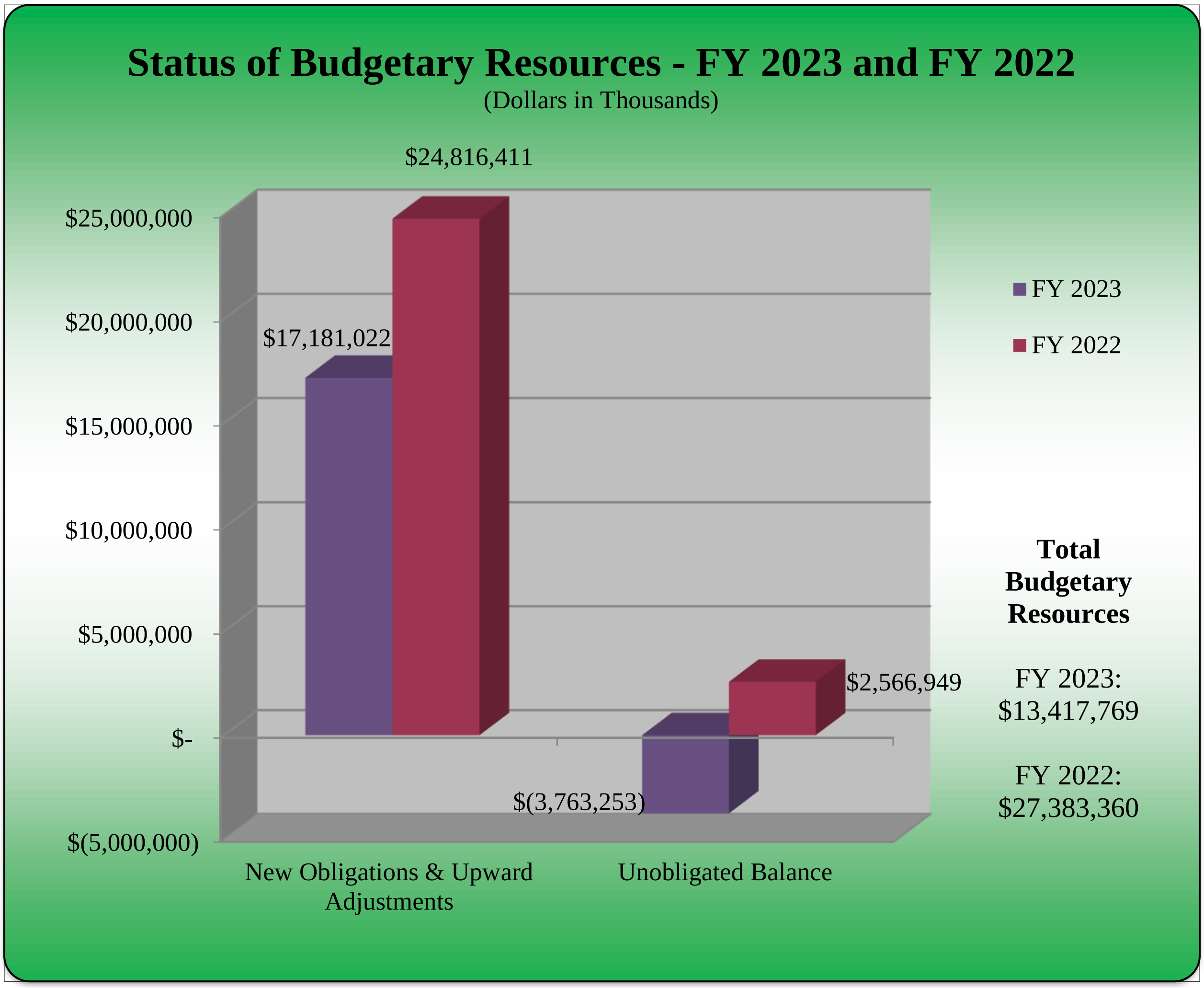
The first chart below compares the net position as of FYs 2023 and 2022; the second chart below compares the total amount of custodial revenue and amounts transferred to other entities during FYs 2023 and 2022.





Combined Statement of Budgetary Resources: This statement provides information on how budgetary resources were made available to the Commission for FY 2023 and FY 2022 and the status of those budgetary resources at the end of each fiscal 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 fiscal year, plus appropriations, spending authority from offsetting collections, and other budgetary resources received during the fiscal year. The Commission had $17,181 million in new obligations and upward adjustments, ($3,763) million in unobligated balance, and $13,418 million in total budgetary resources. The abnormal balances in FY 2023 are related to the Rural Digital Opportunity Fund (RDOF) obligations. These support mechanisms are part of the High Cost Program under the USF, which are exempt from the Antideficiency Act through December 31, 2023. The decrease in total budgetary resources is the result of receiving a direct appropriation for the ACF-ACP in FY 2022 and none in FY 2023.

The chart below presents the status of budgetary resources for FY 2023 and FY 2022.



Other Key Financial Statement Highlights

Regulatory Fee Collections

Pursuant to 47 U.S.C. § 159, the Commission is required to collect regulatory fees each fiscal year and retains those collections to offset certain costs incurred by the Commission. The amount the Commission is required to collect 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 2023, the Commission was required to collect approximately $390 million in regulatory fees. Excess regulatory fees collected were $14 million above the appropriated level and transferred to the General Fund of the Treasury for the sole purpose of deficit reduction.

Limitations on the Financial Statements

The financial statements are prepared to report the financial position, financial condition, and results of operations of the Commission, consistent with the requirements of 31 U.S.C. § 3515(b). The principal financial statements are prepared from the books and records of the Commission in accordance with GAAP for federal entities and the formats prescribed by OMB. The statements, in addition to the financial reports used to monitor and control budgetary resources, 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 Auditors' Report

Transmittal from Office of Inspector General

UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 15, 2023

TO: Chairwoman

FROM: Acting Inspector General Sharon R. Diskin

SUBJECT: Audit of the Federal Communications Commission's Financial Statements for Fiscal Year 2023 (Report No. 23-AUD-06-01)

As required by the Accountability of Tax Dollars Act of 2002 (Pub. L. 107-289), the Office of Inspector General (OIG) engaged the independent certified public accounting firm of Kearney & Company, P.C. (Kearney) to audit, in accordance with generally accepted government auditing standards, the FCC's fiscal year (FY) 2023 financial statements.

Kearney's reports include an opinion report on the Federal Communications Commission's (FCC) financial statements, a report on internal control over financial reporting, and a report on compliance and other matters. Kearney found that the financial statements were fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles. In addition, Kearney did not find any reportable instances of noncompliance with laws, regulations, and contracts applicable to FCC.

However, in its Report on Internal Control over Financial Reporting, Kearney identified two significant deficiencies. The first significant deficiency relates to the aggregate of the information technology (IT) control deficiencies for FCC and Universal Service Fund (USF), which was a repeat finding from the fiscal year 2022 and prior year audit reports. The second significant deficiency pertains to the improper accounting for certain non-recurring transactions related to the Affordable Connectivity Program and the USF High Cost program.

Kearney made 25 recommendations to improve the effectiveness of IT controls over FCC and Universal Service Administrative Company systems. The details of the IT findings and recommendations are included in the separate Federal Information Security Management Act evaluation report. In addition, Kearney made five recommendations to remediate issues related to improper accounting for non-recurring transactions.

Kearney is responsible for the attached audit reports, dated November 15, 2023, and the conclusions expressed therein. In connection with our contract, we reviewed Kearney's reports and related documentation and inquired of its representatives. Our review disclosed no instances where Kearney did not comply, in all material respects, with Government Auditing Standards.

Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted auditing standards, was not intended to enable us to express opinions. Accordingly, we do not express opinions on FCC's financial statements or internal control over financial reporting, or on compliance with laws and regulations and other matters.

The Office of Inspector General appreciates the cooperation and courtesies you extended to our staff and Kearney's staff during the audit.

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

Independent Auditor's Report

KEARNEY& COMPANY

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the Federal Communications Commission (FCC), which comprise the consolidated Balance Sheets as of September 30, 2023 and 2022, the related consolidated Statements of Net Cost and Changes in Net Position and Custodial Activity, and the combined Statements of Budgetary Resources (hereinafter referred to as the "financial statements") for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the FCC as of September 30, 2023 and 2022, its net cost of operations, changes in net position and custodial activity, and budgetary resources for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS); 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. 24-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-01 are further described in the ***Auditor's Responsibilities for the Audit of the Financial Statements*** section of our report. We are required to be independent of the FCC and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for: 1) the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 2) the preparation, measurement, and presentation of Required Supplementary Information (RSI) in accordance with United States generally accepted accounting principles; 3) the preparation and presentation of Other Information included in the FCC's Agency Financial Report, as well as ensuring the consistency of that information with the audited financial statements and the RSI; and 4) 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the FCC's ability to continue as a going concern for a reasonable period of time beyond the financial statement date.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements
- Obtain an understanding of internal control relevant to the audit 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 FCC's internal control. Accordingly, no such opinion is expressed
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the FCC's ability to continue as a going concern for a reasonable period of time beyond the financial statement date.

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We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Budgetary Resources by Major Account and Land, and other RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the basic 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 basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance *Government Auditing Standards*, 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 basic financial statements, and other knowledge we obtained during our audits of the basic 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

Management is responsible for the other information included in the annual report. The other information comprises the Summary of Financial Statement Audit, Summary of Management Assurances, Payment Integrity, Schedule of Civil Monetary Penalties, and Office of Inspector General's (OIG) Management and Performance Challenges but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01, we have also issued reports, dated November 15, 2023, on our consideration of the FCC's internal control over financial reporting and on our tests of the FCC's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2023. 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

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matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 15, 2023

Independent Auditor's Report on Internal Control over Financial Reporting

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Chairwoman, Managing Director, and Acting 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. 24-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2023 and the related notes to the financial statements, which collectively comprise the FCC's financial statements, and we have issued our report thereon dated November 15, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the FCC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FCC's internal control. Accordingly, we do not express an opinion on the effectiveness of the FCC's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 24-01. 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; therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not 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.

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

The Federal Communication Commission's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the FCC's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Commission's Responses to Independent Auditor's Reports section of the Agency Financial Report (AFR). The FCC concurred with the findings identified in our engagement. The FCC's response was not subjected to the other auditing procedures applied in the audit of the financial statements; 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 the FCC's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01 in considering the entity's internal control. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2023

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Schedule of Findings

Significant Deficiencies

I. Information Technology (Modified Repeat Condition)

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

Kearney & Company, P.C. (Kearney) separately performed an evaluation of the FCC's Information Security Program, as required by the Federal Information Security Modernization Act of 2014 (FISMA) and issued a separate report. In addition to the work performed during our FISMA evaluation, we performed risk-based procedures focused on IT controls that are intended to prevent or detect and correct significant misstatements of, or corruption to, the financial data needed for the FCC's financial statements.

Kearney 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 Information Security Continuous Monitoring (ISCM). 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.

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 (FOS), as well as USAC's Schools and Libraries (S&L) account and application management system, E-Rate Productivity Center (EPC). Similar to the FCC, USAC's general IT support system is the gateway for users to access USAC's FOS. Our *Fiscal Year (FY) 2023 FISMA Evaluation Report* includes detailed information for each identified finding.

The following list 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 2023 FCC FISMA evaluation identified deficiencies in multiple IT control areas that impacted the FCC's general IT support system, including Risk Management, Identity and Access Management, Configuration Management, and ISCM. Most notably, the FCC did not enforce the use of Personal Identity Verification (PIV) credentials as a dual-factor authentication mechanism for logical access, nor did it consistently remediate identified network vulnerabilities within the timeframes required by FCC policy. Additionally, the FCC did not effectively implement the Risk Management Framework (RMF) for all information systems, nor did the FCC properly manage user accounts with access to the FCC's network. Further, the FCC did not complete efforts to ensure compliance with the established Center for Internet Security (CIS) benchmarks for baseline configurations, nor did it consistently ensure all changes to the FCC's general IT support system were appropriately classified and approved prior to implementation

- **USAC Systems Utilized in Administering the USF Programs:** The FY 2023 FCC FISMA evaluation identified deficiencies in IT control areas that impacted the USAC's FOS, including Identity and Access Management and Configuration Management. USAC did not complete efforts to ensure FOS complied with the established CIS benchmarks for baseline configurations, nor did USAC properly manage user accounts with access to FOS. Further, USAC did not consistently perform independent and timely reviews of FOS application audit logs in accordance with its policies and procedures.

Cause: The FCC and USAC's ongoing efforts to implement planned corrective actions to remediate longstanding IT deficiencies continue to require prioritization. Specific causal information for each issue identified during the FY 2023 FISMA evaluation is addressed in the *Non-Public FISMA Evaluation Report*.

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 the FCC will be unable to report financial data in an accurate and timely manner.

Recommendations: Kearney's full *FY 2023 FISMA Evaluation Report* included 25 recommendations intended to improve the effectiveness of the FCC's Information Security Program controls in the areas of Risk Management, Configuration Management, Identity and Access Management, and ISCM. Nineteen of the recommendations relate to the FCC, and six of the recommendations relate to USAC. Of the 19 FCC recommendations, 14 relate to FISCAM control areas. All six of the USAC recommendations relate to FISCAM control areas.

II. Accounting Treatment Related to Withheld Payments (New)

Deficiencies in two related areas, in aggregate, define this significant deficiency:

A. Affordable Connectivity Program Withheld Payments Accounting Treatment
B. High Cost Support Withheld Payments Accounting Treatment

A. Affordable Connectivity Program Withheld Payments Accounting Treatment

Background: On November 15, 2021, the Affordable Connectivity Program (ACP) was enacted by the Infrastructure Investment and Jobs Act of 2021 as a longer-term replacement program to the former Emergency Broadband Benefit Program (EBBP). The FCC launched ACP, which received $14.2 billion in funding, on December 31, 2021. As with EBBP, ACP is a benefit program that helps ensure that households can afford broadband access. The benefit provides a discount of up to $30 per month toward internet service for eligible households and up to $75 per month for households on qualifying Tribal lands. Eligible households can also receive a one-time discount of up to $100 to purchase a laptop, desktop computer, or tablet from participating providers if they contribute more than $10 and less than $50 toward the purchase price. The ACP benefit is limited to one monthly service discount and a one-time device discount per household. USAC administers the ACP.

ACP providers bill (submit claims to) the FCC for ACP services and equipment provided in the previous month. Claims submitted to the FCC are self-certified by providers and may be subject to audits. Once USAC internally reviews and approves the claims, it sends FCC a file, which includes all scheduled disbursements to the ACP providers for the approved claims. On a proprietary accounting basis, the FCC recognizes and records an Accounts Payable (AP) and an expense for the approved claims. On a budgetary accounting basis, the FCC recognizes and records a delivered order – unpaid and a reduction in allotments for the approved claims. To record approved claims that are not disbursed, FCC makes manual journal voucher (JV) entries into the accounting system.

Due to ongoing legal issues with several ACP providers, the FCC determined that it would partially withhold payments for approved ACP claims from these providers. These withholdings are used to offset potential future judgements against the providers. As the withheld portion was not disbursed, the FCC recorded a JV to recognize the transaction.

Condition: The FCC incorrectly recorded JVs related to withheld ACP claims as an undelivered obligation during October 2022 through May 2023. Once these claims were approved, the FCC should have recognized the withheld portion of the ACP claim as a delivered order and a valid expense, as defined in Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of The Federal Government*.

Cause: FCC accounting personnel did not properly research the appropriate accounting treatment for non-recurring transactions, such as withheld payments, nor did they update the FCC's accounting policies and procedures accordingly. The JVs posted to the general ledger (GL) were not adequately reviewed to identify and correct the erroneous entries.

Effect: The FCC's erroneous JVs resulted in an overstatement of Upward Adjustments of Prior-Year Unpaid Undelivered Orders – Obligations in FY 2023 by $58.4 million. Additionally, it resulted in an understatement of Delivered Orders – Obligations, Unpaid, AP, and Expenses in FY 2023 by $58.4 million. After Kearney informed the FCC of the erroneous entries, the Financial Statements and Reporting Group (FSRG) corrected the misstatements within the GL as of September 30, 2023.

Recommendations: Kearney recommends that the FCC Office of the Chief Financial Officer (CFO) strengthen processes and internal controls for non-recurring accounting transactions. Specifically, Kearney recommends that the FCC perform the following:

1. Ensure accounting policies and procedures adequately address recording all withheld payment transactions in accordance with accounting standards. [*New*]
2. Ensure JVs are adequately reviewed to catch erroneous entries before transactions are approved and recorded. [*New*]

B. High Cost Support Withheld Payments Accounting Treatment

Background: High Cost is one of four programs that make up the Federal USF, a component of the FCC administered by USAC. High Cost distributes funding to telecommunication carriers to deliver service in rural areas where the market alone cannot support the substantial cost of deploying network infrastructure and providing connectivity. Historically, it has subsidized voice services to ensure that rates in rural and urban areas are reasonably comparable.

To participate in the High Cost program and receive High Cost support, a provider must be certified as an Eligible Telecommunications Carrier (ETC) annually under Title 47 Code of Federal Regulations (CFR) Section 54.314. This Federal regulation requires state utility commissions to certify that carriers under their jurisdiction are eligible to receive High Cost support in their states, used all support collected in the proceeding calendar year only to provide, maintain, and upgrade the facilities for which the support was intended, and will do the same in the coming calendar year.

In July 2015, the FCC instructed USAC to withhold High Cost claim payments for one of its ETCs as a result of ongoing legal issues. USAC retained these withholdings to offset potential future judgements against the ETC. As the withheld claims were not disbursed, USAC recorded an AP to recognize the transaction. In September 2015, the state utility commission revoked the provider's ETC status effective January 2016. Since losing its ETC status, the company appealed the decision multiple times over several years without success. In FY 2018, the FCC determined that the likelihood of payment to the former ETC for claims made beginning on January 1, 2016 was remote. In FY 2023, the FCC recognized that the appropriate adjustments had not been made in light of the FY 2018 determination regarding the likelihood of payment. FCC subsequently adjusted the claims expenses, accrued support claims expense, and delivered orders.

Condition: USAC, with direction from the FCC, began accruing the High Cost support claims for a former ETC starting in January 2016, pending the results of the ETC's appeal of the revocation. These accruals continued to be made through September 2023. However, in FY 2018, the FCC determined that the appeals being pursued by the former ETC had a remote chance of success. At the time of that determination in FY 2018, the FCC should have directed USAC to discontinue the accruals and obligations in accordance with Federal accounting standards.

Cause: The FCC did not follow its guidance on updating its inventory of directives. The directive over withholdings had not been updated since its inception in FY 2016. Additionally, it did not include known withheld payment scenarios. Specifically, the directive did not have a process related to payments withheld due to pending and rejected ETC statuses. It also did not include a process to coordinate amongst appropriate bureaus and offices within the FCC and USAC on determining the status of the claims, the likelihood of the success of the impacted former ETC's appeals, or the related proper accounting treatment.

USAC followed the procedures in the directive on reporting the listing of providers with withheld payments monthly to FCC. However, FCC did not follow up to determine the current status or appropriateness of the withheld payments in the books beyond one year, as required in the directive.

Effect: The FCC improperly included AP, expense, and delivered orders obligations transactions in its interim financial statements in FY 2023 and its prior-year financial statements since FY 2018 when FCC determined the likelihood of success of the appeal was remote. Although these amounts have now been corrected for the FCC's final FY 2023 financial statements, the FCC overstated Expenses by $10 million during FY 2023 and overstated AP and Delivered Orders – Obligations, Unpaid by $120 million. Cumulative results of operations was overstated by $110 million. The cumulative overstatement of Expenses is $120 million for claims recognized from 2016 to 2023.

The FCC's comparative balances for FY 2022 contain overstatements of Expenses of $12 million and overstatements of AP and Delivered Orders - Obligations, Unpaid of $110 million. The prior-year impact of the errors did not rise to the materiality levels that would require a restatement of prior-year balances.

Recommendations: Kearney recommends that the Office of the Managing Director (OMD) strengthen processes and internal controls surrounding non-recurring transactions such as withheld payments. Specifically:

3. Strengthen OMD's role in monitoring controls over withheld payments by ensuring the CFO, or designee, reviews the list of withheld payments and obtains periodic status updates on those withheld payments. [*New*]
4. Ensure directives are reviewed and updated, in accordance with FCC policies and procedures. [*New*]
5. Develop and implement policies and procedures to strengthen coordination of the follow-up activities among the relevant offices at the FCC and its reporting components to ensure withheld payments are accounted for correctly. [*New*]

* * * * *

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APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

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) 2022 financial statements,[1] we noted one reportable finding. The status of the FY 2022 internal control findings is summarized in ***Exhibit 1***.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2022 Status	FY 2023 Status
Information Technology	Significant Deficiency	Significant Deficiency

During the FY 2022 financial statement audit, Kearney & Company, P.C. (Kearney) submitted specific recommendations to the FCC related to the control deficiencies, as noted above, to strengthen the FCC's internal control environment over financial reporting. The statuses of the FY 2022 internal control recommendations are summarized in ***Exhibit 2***.

Exhibit 2: Status of Prior-Year Recommendations

Related Control Deficiency	Recommendation Description	FY 2023 Status
Information Technology[2]	Kearney issued 21information technology (IT)-related recommendations in FY 2022	16 open; Five closed

[1] The *Independent Auditor's Report on Internal Control Over Financial Reporting* was published in the FCC's FY 2022 Agency Financial Report (AFR).

[2] Kearney issued 21 recommendations in the FY 2022 Federal Information Security Modernization Act of 2014 (FISMA) evaluation report. During FY 2023, the FCC took appropriate action to close five recommendations, and we either updated or re-issued the 16 recommendations that were carried over from prior year. The *FY 2023 FISMA Evaluation Report* includes additional, detailed information on each of the 21 prior-year recommendations.

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

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

To the Chairwoman, Managing Director, and Acting 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. 24-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the FCC's basic financial statements, and we have issued our report thereon dated November 15, 2023.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the 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 the FCC. However, providing an opinion on compliance with those provisions was not an objective of our audit; accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 24-01.

Although our audit procedures did not identify any instances of known noncompliance as of and for the year ended September 30, 2023, FCC management was in the process of confirming two potential instances of noncompliance with the Antideficiency Act (ADA) based on events that occurred in fiscal years (FY) 2011 and 2019. Specifically, the FCC identified a potential instance of ADA noncompliance related to certain types of contracting actions and their resulting obligations in FY 2011. In addition, the FCC identified a negative cash balance in the International Telecommunications Settlements fund in FY 2019. The ADA prohibits the FCC from obligating or expending Federal funds in advance or in excess of an appropriation, as well as from accepting voluntary services. These potential instances of noncompliance were still being researched by the FCC as of September 30, 2023.

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 the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01. Accordingly, this communication is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 15, 2023

Commission's Response to Independent Auditor's Reports

UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSON

Office of the Managing Director

DATE: November 15, 2023

TO: Sharon Diskin, Acting Inspector General

FROM: Mark Stephens, Managing Director
Jae Seong, Chief Financial Officer
Allen Hill, 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 2023

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 & Company, to work with the FCC throughout the annual financial statement audit process.

We are pleased that, for the eighteenth straight year, the independent auditor provided an unmodified ("clean") opinion and found that the Commission's consolidated financial statements for Fiscal Year (FY) 2023 present fairly, in all material respects, the financial position of the Commission as of September 30, 2023. 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 2023 audit report identified a repeat significant deficiency related to information technology controls and a new significant deficiency related to a funding hold and classification of withheld payments. We concur with the recommendations made by the independent auditors in their reports.

We look forward to working in FY 2024 to resolve the FY 2023 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

MARK STEPHENS Digitally signed by MARK STEPHENS Date: 2023.11.15 08:36:46 -05'00'	JAE SEONG Digitally signed by JAE SEONG Date: 2023.11.15 05:49:25 -05'00'	ALLEN HILL Digitally signed by ALLEN HILL Date: 2023.11.15 07:13:14 -05'00'
Mark Stephens Managing Director Office of Managing Director	Jae Seong Chief Financial Officer Office of Managing Director	Allen Hill Chief Information Officer Office of Managing Director

Principal Statements

Federal Communications Commission

Balance Sheets

As of September 30, 2023 and September 30, 2022
(Dollars in thousands)

	FY 2023	FY 2022
Assets (Note 2):		
Intragovernmental assets:		
Fund Balance with Treasury (Note 3)	$ 22,556,872	$ 31,764,119
Accounts receivable, net (Note 4)	3	8
Advances and prepayments	3,325	1,726
Total intragovernmental assets	22,560,200	31,765,853
Other than intragovernmental assets:		
Accounts receivable, net (Note 4)	807,909	685,877
Property, plant and equipment, net (Note 5)	104,587	95,084
Advances and prepayments	13,024	13,024
Total other than intragovernmental assets	925,520	793,985
Total assets	$ 23,485,720	$ 32,559,838
Liabilities (Note 6):		
Intragovernmental liablities:		
Accounts payable	$ 264	$ 103
Advances from others and deferred revenue	522	-
Other liabilities (Note 7)		
Liability to the General Fund of the U.S. Government for custodial and other non-entity assets	3,091,621	3,114,831
Other liabilities	4,545	4,307
Total other liabilities	3,096,166	3,119,138
Total intragovernmental liabilities	3,096,952	3,119,241
Other than intragovernmental liabilities:		
Accounts payable	1,145,956	992,321
Federal employee benefits payable	26,421	24,822
Advances from others and deferred revenue	385,136	505,520
Other liabilities (Note 7)		
Prepaid contributions	64,111	102,265
Accrued liabilities for USF and TRS	558,438	596,528
Deposit/Unapplied liability	2,945	2,509
Other	25,804	26,459
Total other liabilities	651,298	727,761
Total other than intragovernmental liabilities	2,208,811	2,250,424
Total liabilities	$ 5,305,763	$ 5,369,665
Commitments and contingencies (Note 8)		
Net position:		
Unexpended Appropriations-Funds from Dedicated Collections (Note 9)	$ 753,872	$ 759,909
Unexpended Appropriations-Funds from Other than Dedicated Collections	10,781,318	19,526,104
Total Unexpended Appropriations (Consolidated)	11,535,190	20,286,013
Cumulative Results of Operations-Funds from Dedicated Collections (Note 9)	6,332,446	6,642,083
Cumulative Results of Operations-Funds from Other than Dedicated Collections	312,321	262,077
Total Cumulative Results of Operations (Consolidated)	6,644,767	6,904,160
Total net position	18,179,957	27,190,173
Total liabilities and net position	$ 23,485,720	$ 32,559,838

The accompanying notes are an integral part of these statements.

Federal Communications Commission
Statements of Net Cost
For the Years Ended September 30, 2023 and September 30, 2022
(Dollars in thousands)

	FY 2023	FY 2022
Gross Program costs:		
Pursue a "100 Percent" Broadband Policy:		
Net Program Cost	$ 10,597,929	$ 9,557,810
Promote Diversity, Equity, Inclusion, and Accessibility:		
Net Program Cost	6,830,122	5,563,664
Empower Consumers:		
Net Program Cost	671,346	649,357
Enhance Public Safety and National Security:		
Net Program Cost	270,471	51,083
Advance America's Global Competitiveness:		
Net Program Cost	107,786	101,859
Foster Operational Excellence:		
Net Program Cost	114,993	115,384
Net Program Costs	$ 18,592,647	$ 16,039,157
Less: earned revenues not attributed to programs	(554,730)	(546,566)
Net cost of operations	$ 18,037,917	$ 15,492,591

The accompanying notes are an integral part of these statements.

Federal Communications Commission

Statements of Changes in Net Position and Custodial Activity

For the Years Ended September 30, 2023 and September 30, 2022

(Dollars in thousands)

	FY 2023			FY 2022		
	Funds from Dedicated Collections Consolidated (Note 9)	**Funds from Other than Dedicated Collections Consolidated**	**Consolidated Totals**	**Funds from Dedicated Collections Consolidated** (Note 9)	**Funds from Other than Dedicated Collections Consolidated**	**Consolidated Totals**
Unexpended Appropriations:						
Unexpended Appropriations Beginning balance, as adjusted	$ 759,909	$ 19,526,104	$ 20,286,013	$ 819,020	$ 11,728,689	$ 12,547,709
Changes in Unexpended Appropriations:						
Appropriations received	-	-	-	-	14,200,000	14,200,000
Appropriations Used	(6,037)	(8,744,754)	(8,750,791)	(59,111)	(6,402,585)	(6,461,696)
Other adjustments to appropriations	-	(32)	(32)	-	-	-
Total Unexpended Appropriations: Ending Balance	$ 753,872	$ 10,781,318	$ 11,535,190	$ 759,909	$ 19,526,104	$ 20,286,013
Cumulative Results of Operations:						
Cumulative Results of Operations Beginning balance, as adjusted	$ 6,642,083	$ 262,077	$ 6,904,160	$ 6,948,472	$ 229,066	$ 7,177,538
Changes in Cumulative Results of Operations:						
Net cost of operations (+/-)	9,364,878	8,673,039	18,037,917	9,141,222	6,351,369	15,492,591
Financing Sources:						
Appropriations Used	6,037	8,744,754	8,750,791	59,111	6,402,585	6,461,696
Other than intragovernmental non-exchange revenue	9,049,204	-	9,049,204	8,775,722	-	8,775,722
Intragovernmental non-exchange revenue	-	1,214	1,214	-	390	390
Imputed financing from costs incurred by other entities	-	14,367	14,367	-	12,789	12,789
Other	-	(37,052)	(37,052)	-	(31,384)	(31,384)
Net Change in Cumulative Results of Operations	(309,637)	50,244	(259,393)	(306,389)	33,011	(273,378)
Total Cumulative Results of Operations	6,332,446	312,321	6,644,767	6,642,083	262,077	6,904,160
Net position, end of period	$ 7,086,318	$ 11,093,639	$ 18,179,957	$ 7,401,992	$ 19,788,181	$ 27,190,173
Net Custodial Activities:						
Custodial Revenue:						
Other cash collections						
Spectrum auctions		$ 108,670			$ 22,514,626	
Fines & penalties		21,282			48,568	
Total cash collections		129,952			22,563,194	
Accrual adjustments:						
Fines & penalties		358			(313)	
Refunds and other payments						
Auctions Salaries & Expenses (FCC)		(132,231)			(128,621)	
Net custodial revenue		(1,921)			22,434,260	
Distribution of Collections:						
Amounts transferred to Federal entities						
Treasury		(21,282)			(81,137,544)	
Spectrum Relocation Fund (OMB)		-			(22,418,284)	
Public Safety Trust Fund (NTIA)		-			1,552	
(Increase)/Decrease in Amounts Yet to be Transferred (+/-)		23,203			81,120,016	
Total distribution of collections		1,921			(22,434,260)	
Net custodial activity		$ -			$ -	

The accompanying notes are an integral part of these statements.

Federal Communications Commission
Statements of Budgetary Resources
For the Years Ended September 30, 2023 and September 30, 2022
(Dollars in thousands)

	FY 2023 Budgetary	FY 2022 Budgetary
Budgetary Resources		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 3,987,251	$ 3,709,243
Appropriations (discretionary and mandatory)	8,907,324	23,162,823
Spending authority from offsetting collections (discretionary and mandatory)	523,194	511,294
Total budgetary resources	$ 13,417,769	$ 27,383,360
Status of Budgetary Resources		
New obligations and upward adjustments (total)	$ 17,181,022	$ 24,816,411
Unobligated balance, end of year		
Apportioned, unexpired accounts	7,223,165	15,004,559
Exempt from apportionment, unexpired accounts	(11,251,270)	(12,438,228)
Unapportioned, unexpired accounts	264,614	43
Unexpired unobligated balance, end of year	(3,763,491)	2,566,374
Expired unobligated balance, end of year	238	575
Unobligated balance, end of year (total)	(3,763,253)	2,566,949
Total budgetary resources	$ 13,417,769	$ 27,383,360
Outlays, Net		
Outlays, net (total) (discretionary and mandatory)	$ 17,954,145	$ 15,235,623
Distributed offsetting receipts (-)	(30,005)	(40,251)
Agency outlays, net (discretionary and mandatory)	$ 17,924,140	$ 15,195,372

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

For the Years Ended September 30, 2023 and September 30, 2022

(Dollars in thousands unless otherwise stated)

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The Federal Communications Commission (FCC or 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 three reporting components. The primary component consists of Commission headquarters and field offices. The two additional components are the Universal Service Fund (USF) and the Telecommunications Relay Service (TRS) Fund. The USF reports the results of the four universal service programs (established pursuant to section 254 of the Act, as amended), and the Connected Care Pilot Program (CCPP). Section 510 of Division E of the Consolidated Appropriations Act, 2023, P. L. 117–328, amended Section 302 of the Universal Service Anti-deficiency Temporary Suspension Act, Title III of P. L. 108-494, extending the universal service programs exemption from the application of the provisions of the Anti-deficiency Act until December 31, 2023. Accordingly, the USF is not subject to apportionment by the Office of Management and Budget (OMB). The TRS Fund was established by the Americans with Disabilities Act of 1990, Title IV, and is not exempt from the Anti-deficiency Act and must be apportioned by OMB before funds are available for use. Information regarding disclosure entities is separately disclosed in Note 17.

B. Accounting Policies

The consolidated and combined financial statements (collectively, 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—Revised*. Custodial activity reported on the Statement of Changes in Net Position and 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. Fund Balance with Treasury and Funds from Dedicated Collections

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 and deposit funds are used to hold amounts temporarily until they can be properly disbursed or distributed.

Note 1 – Summary of Significant Accounting Policies (continued)

D. Classified Activities

Statement of Federal Financial Accounting Standards (SFFAS) 56, *Classified Activities*, requires 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.

E. 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.

The USF's E-Rate program has Commitment Adjustment (COMAD) receivables. COMAD or 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 TRS portion of the allowance is based on estimated exposure to risk of nonpayment of billed balances, primarily based collection experience. The allowance includes reserves for identified bankruptcies, identified inactive contributors, contributors on appeal more than two years, delinquent amounts that are referred to Treasury for collection, and other items. The TRS administrator periodically reviews the estimates and may change the assessment of recoverability based on actual results.

F. Property, Plant and Equipment, Net

The basis for recording purchased 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.

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

Note 1 – Summary of Significant Accounting Policies (continued)

F. Property, Plant and Equipment (continued)

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.

G. Advances and Prepayments

Intragovernmental advances and prepayments represent advance payments for intragovernmental agreements. Advances and prepayments with the public represent the balance of transfers less expenses made by the USF to the Universal Service Administrative Company (USAC), the USF administrator, 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.

H. 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 and TRS expenses are non-exchange expenses. Accrued Liabilities for USF mostly represent liabilities recorded for anticipated subsidies in the Lifeline program, and for all legacy support mechanisms within the High-Cost program and TRS support mechanisms. An Accounts Payable accrual is recorded for subsidies related to support mechanisms in TRS and the following USF programs: Connect America Fund (CAF) Phase II, CAF Phase II reverse auction (CAF II Auction), Rural Broadband Experiment, Alternative Connected America Cost Model (A-CAM), A-CAM II, Alaska Plan, Puerto Rico and the Virgin Islands, and Rural Digital Opportunity Fund (RDOF). The Commission does not accrue for payments under the E-Rate or Rural Health Care Programs until potentially eligible costs pass through a thorough review process and the costs are approved for disbursement.

Similar to the USF Rural Health Care and E-Rate Programs, the expenses related to the Coronavirus Disease of 2019 (COVID-19) Telehealth Program, the Secure and Trusted Networks Communications Act Reimbursement Program, also known as the Supply Chain Reimbursement Program (SCRP), and the ECF are non-exchange expenses. The Commission does not accrue payments under the COVID-19 Telehealth Program, SCRP or ECF until submitted eligible expenses are approved for payment. The ACP expenses are also non-exchange and similar to the Lifeline Program, and as such, the Commission accrues the expected payments. Refer to Note 18 for more information.

Accrued Liabilities for the TV Broadcaster Relocation Fund (TVBRF) represent liabilities for exchange expenses which includes invoices received but not processed and 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

Note 1 – Summary of Significant Accounting Policies (continued)

H. Accounts Payable and Accrued Liabilities (continued)

distributors (MVPDs), Television translator stations (LPTV/TV Translator) and by FM radio stations (FM stations). For this program, an accrued liability for invoices received but not processed and for costs incurred but not invoiced is made to Accounts Payable.

I. Advances From Others and Deferred Revenue

The Commission's advances from others and deferred revenue consists of intragovernmental advances and deferred revenue. Intergovernmental advances are the result of interagency agreements where the Commission agrees to provide certain services.

The Commission collects proceeds from the sale of spectrum licenses to the public 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 TRS 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.

J. 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.

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'

Note 1 – Summary of Significant Accounting Policies (continued)

J. Retirement Plans and Other Benefits (continued)

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 U.S. Department of Labor.

K. 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.

L. Exchange Revenue, Non-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: Pursue a "100 Percent" Broadband Policy; Promote Diversity, Equity, Inclusion, and Accessibility; Empower Consumers; Enhance Public Safety and National Security; Advance America's Global Competitiveness; and Foster Operational Excellence. Since 1993, Congress annually reviews the regulatory fee collection requirements of the Commission and establishes the total regulatory fee levels to be collected in annual Appropriations Acts. Regulatory fees collected up to the level established by Congress are applied against the Commission's appropriation at the close of each fiscal year. 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. The Commission collected the appropriated regulatory fee levels of $390,192 for FY 2023 and $381,950 for FY 2022. Excess collections of $13,849 in FY 2023 and $4,995 in FY 2022 were transferred to the Treasury for the sole purpose of deficit reduction. As of September 30, 2023, the Commission transferred excess regulatory fee collections totaling $163,893 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 $132,231 for FY 2023 and $128,621 for FY 2022.

Radio Spectrum Auction Proceeds (Exchange) – In accordance with the provisions of 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 marketplace at the time of auction.

Note 1 – Summary of Significant Accounting Policies (continued)

L. Exchange Revenue, Non-Exchange Revenue, and Financing Source (continued)

The original spectrum auction authority was scheduled to expire in FY 1998; however, it was extended through FY 2007 in the Balanced Budget Act of 1997, P.L. 105-33; extended through FY 2011 by the Deficit Reduction Act of 2005, P.L. 109-171; extended through FY 2012 by the DTV Delay Act (2012), P.L. 111-4; extended through FY 2022 by the Middle Class Tax Relief and Job Creation Act of 2012, P.L. 112-96; extended through December 16, 2022 by the Continuing Appropriations and Ukraine Supplemental Appropriations Acct, 2023, P.L. 117-180; extended through December 23, 2022 by the Further Continuing Appropriations and Extensions Act, 2023, P.L. 117-229; extended through December 30, 2022 by the Further Additional Continuing Appropriations and Extensions Act, 2023, P.L 117-264; and extended through March 9, 2023 by the Consolidated Appropriations Act, 2023, P.L. 117-328.

The Commission's authority to conduct new auctions and grant a license or permit under section 309(j) of the Communications Act expired March 9, 2023, except that, with respect to the electromagnetic spectrum identified under section 1004(a) of the Spectrum Pipeline Act of 2015, such authority shall expire on September 30, 2025, and with respect to the electromagnetic spectrum identified under section 90008(b)(2)(A)(ii) of the Infrastructure Investment and Jobs Act (P.L. 117-58), such authority shall expire on November 15, 2028, seven (7) years after the date of enactment of that Act.

The Commission recognized $108,670 of custodial revenue (net of accrual adjustments) related to spectrum auctions completed in prior fiscal years and $22,514,626 in FY 2022. The Commission transferred $81,088,976 to the Treasury and $22,418,284 to the Spectrum Relocation Fund administered by the OMB in FY 2022. There were no transfers in FY 2023.

<u>Application Fees (Exchange)</u> – 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. Section 8(b) of the Act requires the Commission, in every even-numbered year, to adjust the schedule of application fees to reflect increases or decreases in the Consumer Price Index (CPI), rounded to the nearest $5 increment. In addition to the CPI adjustment as required by 8(b) of the Act, section 8(c) of the Act requires the Commission to, by rule, amend the application fee schedule if the Commission determines that the schedule requires amendment so that: (1) such fees reflect increases or decreases in the costs of processing applications at the Commission or (2) such schedule reflects the consolidation or addition of new categories of applications. Application fees are deposited in the Treasury and are not available for the Commission's use. Application fee revenue totaled $20,370 in FY 2023 and $24,876 in FY 2022. The most recent Report and Order establishing application fees was adopted by the Commission on December 15, 2022 and released on December 16, 2022. In the *2022 Application Fees Report and Order*, the Commission adjusted the application fees to reflect a net change in the Consumer Price Index (CPI) of 11.6%, an increase of 30.958 index points calculated from 267.054 to 298.012. The adjustments complied with the requirements set forth in section 8(b) and (c) of the Act.

<u>900 Megahertz (MHz) Anti-Windfall Program (Exchange)</u> – On May 13, 2021, the Commission realigned the 900 MHz band to make available six megahertz of low-band spectrum for the development of critical wireless broadband technologies and services, while reserving the remaining four megahertz of spectrum for continued narrowband operations. Applicants that relinquish less than six megahertz of spectrum are required to make an anti-windfall payment before the Commission will grant its 900 MHz broadband segment application. Anti-windfall payment revenue totaled $1,620 in FY 2023 and $1,123 in FY 2022.

Note 1 – Summary of Significant Accounting Policies (continued)

L. Exchange Revenue, Non-Exchange Revenue, and Financing Source (continued)

Reimbursable Work Agreements (Exchange) – The Commission recognizes reimbursable work agreement revenue when earned, i.e., goods that have been delivered or services rendered. The Commission executed agreements totaling $1,305 in FY 2023 and $1,076 in FY 2022.

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 and TRS (Non-Exchange) – Carriers conducting interstate telecommunications are required to contribute a portion of their revenues to fund the cost of providing universal service programs and TRS. These contributions represent dedicated collections. In addition to contributions, non-exchange revenues also include fines, penalties, and interest. Non-exchange revenues earned in FY 2023 were $7,992,952 by USF and $1,056,800 by TRS. Non-exchange revenues earned in FY 2022 were $7,516,280 by USF and $1,246,630 by TRS. For more information, refer to Note 9 and Note 19.

Appropriations (Financing Source) – The Commission receives a Salaries and Expenses 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 appropriations were $390,192 for FY 2023, and $381,950 for FY 2022. In FY 2022, as part of the Infrastructure Investment and Jobs Act (Infrastructure Act), Congress appropriated $14,200,000 for the Affordable Connectivity Fund (ACF); see Note 1 P for more information.

M. Reprogramming

For the period ended September 30, 2023, the Commission received approval for reprogramming $7,787 of prior year de-obligated funds for real property improvements, modernization of the FCC's radio frequency senor system capabilities, and resolution of balance for international telecommunications settlement. In FY 2022, the Commission received approval for reprogramming $4,120 of prior year de-obligated funds for the space communications monitoring center modernization.

N. 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 9.

O. 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) and modified in 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 Spectrum Act and REA requires the Commission to reimburse

Note 1 – Summary of Significant Accounting Policies (continued)

O. Broadcast Incentive Auction (continued)

relocation costs reasonably incurred by full power and Class A broadcasters, MVPDs, LPTV/TV Translator and by FM stations that were involuntarily reassigned to new channels or disrupted or displaced as a result of the BIA. In implementing the REA for eligible LPTV/TV Translator and by FM stations, the Commission determined in the *REA Report & Order*, adopted March 15, 2022, that reimbursement of full power and Class A stations and MVPDs would be prioritized over reimbursement of LPTV/TV Translator and FM stations.

Pursuant to the REA, the reimbursement period for the TVBRF was extended to July 3, 2023. At that time, any unobligated amounts "shall be rescinded and deposited in the general fund of the Treasury." Amounts allocated to stations in the reimbursement program are obligated amounts. There are a small number of TV stations in the program which are expected to incur costs as a result of the repack beyond July 3, 2023 due to circumstances beyond their control. Therefore, some stations have been granted an extension of the final invoice filing deadline beyond July 3, 2023 where such stations: (1) will incur costs after July 3, 2023, (2) can substantiate that the station has diligently pursued construction project during the program period, (3) face circumstances beyond station's control, and (4) provides estimates and documentation sufficient to support a verified estimate for costs to be incurred after July 3, 2023. Unobligated funds will be transferred to the Treasury.

As of September 30, 2023, the Commission made a total allocation of $1,865,773 for eligible full power and Class A broadcasters, MVPDs, LPTV/TV Translators and FM stations of which $1,865,773 has been obligated and $1,797,039 has been outlaid.

Accrued Liabilities are recorded in the TVBRF for exchange expenses which includes invoices received but not processed and for costs incurred but not invoiced. As of September 30, 2023, an accrued accounts payable of $6,543 was recorded for the full power and Class A broadcasters, MVPDs, and LPTV/TV Translators. FM stations portion of the program closed in FY 2023.

P. Affordable Connectivity Fund

On December 27, 2020, the Consolidated Appropriations Act, 2022 (Consolidated Appropriations Act, P.L. 116-260), was signed into law. In the Consolidated Appropriations Act, Congress appropriated $3,200,000 for the EBCF for fiscal year 2022, to remain available until expended or six months after the end of the public health emergency. The Consolidated Appropriations Act directed the Commission to use that funding to establish the EBCF-EBBP, under which eligible low-income households may receive a discount off the cost of broadband service and certain connected devices during an emergency period relating to the COVID-19 pandemic, and participating providers can receive a reimbursement for such discounts. Enrollments in the EBCF-EBBP ceased on December 30, 2021 and the successor program, ACP began on December 31, 2021.

On November 15, 2021, the Infrastructure Act was signed into law. In the Infrastructure Act, Congress appropriated $14,200,000 to build on the EBCF-EBBP and replace it with the longer-term broadband Affordable Connectivity Program.

Note 1 – Summary of Significant Accounting Policies (continued)

P. Affordable Connectivity Fund (continued)

The Infrastructure Act directed the Commission to use that funding to establish the ACP, under which eligible low-income households may receive a discount off of the cost of broadband service and certain connected devices, and participating providers can receive a reimbursement for passing such discounts on to eligible households. The Infrastructure Act also expressly authorized the Commission to use that funding to conduct outreach for and awareness of the ACP, including providing grants to outreach partners. The Commission thus allocated up to $100,000 for outreach, including an outreach grant program and outreach activities by the Commission's Consumer and Governmental Affairs Bureau, as authorized in the Infrastructure Act, to be spent over five years, and $10,000 for broadband mapping.

To participate in the ACP, a provider must elect to participate, and either be designated as an eligible telecommunications carrier or be approved by the Commission. Participating providers make available to eligible households a monthly discount off the cost of an Internet service offering and associated equipment, up to $30 dollars per month. On Tribal lands, the monthly discount may be up to $75 dollars per month. Participating providers receive reimbursement from the ACP for the discounts provided. Participating providers that also supply an eligible household with a laptop, desktop computer, or tablet (connected device) may receive a single reimbursement of up to $100 dollars for the connected device, if the charge to and payment from the eligible household for that device is more than $10 dollars but less than $50 dollars. A participating provider may receive reimbursement for only one supported device per eligible household. Providers must submit certain certifications to the Commission to receive reimbursement from the ACP, and the Commission is required to adopt audit requirements to ensure provider compliance and prevent waste, fraud, and abuse.

In implementing the ACP, the Infrastructure Act permits the Commission to apply rules contained in part 54 of the Commission's rules, including those governing the Lifeline Program. The Infrastructure Act further permits the Commission to avail itself of USAC's services to administer the ACP. Consistent with the Infrastructure Act, the Commission adopted a *Report and Order* on January 14, 2023 adopting the rules and policies creating and governing the ACP. The Commission's Wireline Competition Bureau, other Commission staff and USAC have established processes and systems to administer the ACP, including approval and election processes for broadband providers to participate, consumer application and enrollment processes, and provider reimbursement processes. Consumers can apply for the ACP by going to GetInternet.gov to submit an application, printing out a mail-in application, or through a service provider's alternative application process.

As of September 30, 2023, approximately 21.1 million households were enrolled in the ACP. In FY 2023, the FCC obligated $6,672,182 and had net outlays of $6,198,065 for the ACP, broadband mapping, and grants or outreach. For EBCF-EBBP obligations and net outlays, see Note 18.

Note 1 – Summary of Significant Accounting Policies (continued)

Q. Connect America Fund

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, 2023, the FCC has directed USAC to obligate a total of $1,483,812 for carriers who 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 are $3,999 bids in default as of September 30, 2023, leaving a balance of $518 to be obligated. In addition, the FCC committed to award a potential total of $170,400 to carriers that won the CAF II New York Auction over a 10-year period. As of September 30, 2023, FCC has directed USAC to obligate a total amount of $65,487, with remaining balance of $104,913 to be obligated. There were $54,301 for CAF II and $660 for CAF II New York de-obligation due to lack of CFR compliance as of September 30, 2023.

R. Rural Digital Opportunity Fund (RDOF)

Pursuant to a public notice, DA 20-1422, released on December 7, 2020 by the Rural Broadband Auctions Task Force (RBATF), the Wireline Competition Bureau (WCB), and the Office of Economics and Analytics (OEA), there were 180 winning bidders in the Rural Digital Opportunity Fund Phase I auction (Auction 904), with the 10-year support amount totaling $9,230,688 and covering 5,220,833 locations in 49 states and one territory. As of September 30, 2023, the FCC has directed USAC to obligate a total of approximately $6,064,438 for applicants who have successfully complied with the requirements to be eligible to receive support to provide voice and broadband services. As of September 30, 2023, the Commission has announced that applicants have defaulted on a total of approximately $3,148,468 in support associated with winning bids.

S. Comparison and Other

Certain FY 2022 amounts have been reclassified to conform to the FY 2023 presentation. Specifically, the Statement of Net Costs strategic goals allocation was realigned to better reflect the costs related to Promoting Diversity, Equity, Inclusion and Accessibility.

Note 2 – Non-entity Assets

The following summarizes Non-entity Assets as of September 30, 2023 and September 30, 2022:

		FY 2023		FY 2022
Intragovernmental:				
Fund Balance with Treasury	$	3,421,293	$	3,567,869
Total Intragovernmental		3,421,293		3,567,869
Accounts Receivable, Net		24,436		28,150
Total Non-entity Assets		3,445,729	73	3,596,019
Total Entity Assets		20,039,991		28,963,819
Total Assets	$	23,485,720	$	32,559,838

Note 2 – Non-entity Assets (continued)

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.

Note 3 – Fund Balance with Treasury

The following summarizes FBWT as of September 30, 2023 and September 30, 2022:

	FY 2023	FY 2022
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ (4,028,105)	$ 2,566,331
Unavailable	281,948	17,715
Obligated Balance not yet Disbursed	22,881,736	25,612,204
Non-Budgetary FBWT	3,421,293	3,567,869
Total	$ 22,556,872	$ 31,764,119

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, COVID-19 Telehealth Program, Broadband DATA Act program, ACP, EBCF-EBBP, SCRP, ECF, the auction and reimbursable accounts, the credit reform program account, 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, USF and TRS fund. TVBRF is for relocation costs reasonably incurred by full power and Class A broadcasters, MVPDs, LPTV, TV Translator, and FM stations who were involuntarily reassigned to new channels or incurred 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 and the CCPP. The USF programs are exempt from the application of the provisions of the Anti-deficiency Act by Congress through December 31, 2023 and are not subject to an apportionment by OMB.

Deposit Funds – Includes monies being held for regulatory fees and spectrum auctions. 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 – Accounts Receivable, Net

The following summarizes Accounts Receivable, Net as of September 30, 2023 and September 30, 2022:

FY 2023	Intragovernmental	Public	Total
Gross Accounts Receivable	$ 3	$ 2,466,302	$ 2,466,305
Allowance for Doubtful Accounts	-	(1,658,393)	(1,658,393)
Accounts Receivable, Net	$ 3	$ 807,909	$ 807,912

FY 2022	Intragovernmental	Public	Total
Gross Accounts Receivable	$ 8	$ 1,903,554	$ 1,903,562
Allowance for Doubtful Accounts	-	(1,217,677)	(1,217,677)
Accounts Receivable, Net	$ 8	$ 685,877	$ 685,885

The following summarizes accounts receivable by type as of September 30, 2023 and September 30, 2022:

	FY 2023			FY 2022		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 1,229,592	$ (557,245)	$ 672,347	$ 1,157,472	$ (525,345)	$ 632,127
TRS	153,236	(78,836)	74,400	101,103	(78,248)	22,855
Regulatory Fees	31,194	(23,151)	8,043	33,270	(22,198)	11,072
Spectrum Auction	8,680	(8,680)	-	8,680	(8,680)	-
Civil Monetary Penalties	992,192	(980,713)	11,479	586,225	(573,425)	12,800
ECF	4,916	(2,197)	2,719	4,370	(2,379)	1,991
EBBP	32,901	-	32,901	-	-	-
Other	13,594	(7,571)	6,023	12,442	(7,402)	5,040
Total	$ 2,466,305	$ (1,658,393)	$ 807,912	$ 1,903,562	$ (1,217,677)	$ 685,885

The Commission expects to collect 100% of intragovernmental receivables and no allowance is recorded. See Note 1 E for more information on the estimation method used to determine the allowance for uncollectible amounts.

Note 5 – Property, Plant and Equipment, Net

The following table summarizes total PP&E and accumulated depreciation as of September 30, 2023 and September 30, 2022. See Note 1 F for more information.

	FY 2023 Net PP&E	FY 2022 Net PP&E
Balance beginning of year	$ 95,084	$ 84,202
Capitalized acquisitions	24,160	30,539
Disposition	(550)	-
Depreciation expense	(14,107)	(19,657)
Balance at end of year	$ 104,587	$ 95,084

Note 5 – Property, Plant and Equipment, Net (continued)

The following table summarizes total PP&E and accumulated depreciation by major class as of September 30, 2023 and September 30, 2022.

	FY 2023			FY 2022		
Major Class	Cost	Accumulated depreciation	Book value, net	Cost	Accumulated depreciation	Book value, net
Land	$ 1,431	$ -	$ 1,431	$ 1,431	$ -	$ 1,431
Buildings	18,970	6,379	12,591	18,970	5,990	12,980
Equipment	51,906	46,370	5,536	53,565	46,483	7,082
Leashold improvements	20,909	10,618	10,291	22,006	9,471	12,535
Software	275,049	261,191	13,858	271,687	253,590	18,097
Software in development	60,880	-	60,880	42,959	-	42,959
Total	$ 429,145	$ 324,558	$ 104,587	$ 410,618	$ 315,534	$ 95,084

Note 6 – Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2023 and September 30, 2022:

	FY 2023	FY 2022
Intragovernmental:		
FECA Liability	$ 371	$ 422
Total Intragovernmental	371	422
Unfunded Leave	23,353	22,418
Actuarial FECA Liability	2,220	1,676
Other:		
Energy Savings Performance Contract	6,098	6,362
Accrued Liabilities for USF and TRS	558,438	596,528
Total liabilities not covered by budgetary resources	590,480	627,406
Total liabilities covered by budgetary resources	1,277,597	1,157,311
Total liabilities not requiring budgetary resources	3,437,686	3,584,948
Total Liabilities	$ 5,305,763	$ 5,369,665

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

Note 7 – Other Liabilities

The following summarizes Other Liabilities as of September 30, 2023 and September 30, 2022:

	FY 2023	FY 2022
Intragovernmental		
Liability to the General Fund and Other Non-Entity Assets	$ 3,091,621	$ 3,114,831
Other	4,545	4,307
Total Intragovernmental	3,096,166	3,119,138
Other than Intragovernmental		
Prepaid Contributions	64,111	102,265
Accrued Liabilities for USF and TRS	558,438	596,528
Deposit/ Unapplied Liability	2,945	2,509
Other	25,804	26,459
Total Other than Intragovernmental	651,298	727,761
Total Other Liabilities	$ 3,747,464	$ 3,846,899

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. The Commission collects the following types of custodial revenue: fines and forfeitures revenue, penalty revenue on regulatory fees and spectrum auctions program revenue.

Prepaid Contributions include USF and TRS contribution overpayments that may be refunded or used to offset future payments. Accrued Liabilities for USF and TRS primarily represent anticipated future payments for the Lifeline Program, and certain support mechanisms within the High Cost Program and TRS. The obligations for these subsidies are not recognized until payment files are approved in the subsequent month.

Deposit/Unapplied Liabilities include upfront auction payments received. The 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 8 – 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 U.S. Department of Justice (DOJ) 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, the TRS Fund Administrator, and the DOJ 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.

In addition, there are certain operating leases and contracts that may contain provisions regarding contract termination costs upon early contract termination. In management's opinion, early contract termination will not materially affect the Commission's consolidated financial statements.

As of September 30, 2023, the likelihood of an unfavorable outcome on all current legal cases is considered remote and no additional disclosure is needed.

Note 9 – Funds from Dedicated Collections

The telecommunications companies in the U.S. are obligated to make contributions to the USF and the TRS Fund. The Commission currently recognizes the contributions collected under the USF and TRS as Non-exchange revenue on its Statement of Changes in Net Position and Custodial Activity, and the related disbursements as program expenses on the Statement of Net Cost. The program costs for the USF are allocated to the strategic goals: Pursue a "100 Percent" Broadband Policy and Promote Diversity, Equity, Inclusion and Accessibility. The program costs for the TRS are allocated to the strategic goals: Promote Diversity, Equity, Inclusion and Accessibility and Empower Consumers.

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 FYs 2023 and 2022.

The following pages summarize the significant assets, liabilities, and costs incurred related to the TVBRF, USF and TRS as of September 30, 2023 and September 30, 2022. The information below is shown on a combined and consolidated bases. The Commission had no eliminations between dedicated collection funds. Therefore, the combined and consolidated are the same.

Note 9 –Funds from Dedicated Collections (continued)

FY 2023	TVBRF	USF	TRS	Total Funds from Dedicated Collections (Consolidated)
Balance Sheet as of September 30, 2023				
Intragovernmental				
Fund Balance with Treasury	$ 931,530	$ 5,940,550	$ 309,119	$ 7,181,199
Total intragovernmental assets	931,530	5,940,550	309,119	7,181,199
Other than intragovernmental				
Accounts receivable, net	1,103	672,349	74,425	747,877
Property, plant, and equipment, net	-	10,812	2,247	13,059
Advances and prepayments	-	13,024	-	13,024
Total other than intragovernmental	1,103	696,185	76,672	773,960
Total assets	$ 932,633	$ 6,636,735	$ 385,791	$ 7,955,159
Other than intragovernmental				
Accounts payable	$ 6,555	$ 223,882	$ 7,461	$ 237,898
Deferred revenue	-	-	8,394	8,394
Prepaid contributions	-	62,547	1,564	64,111
Accrued liabilities	-	322,234	236,204	558,438
Total liabilities	$ 6,555	$ 608,663	$ 253,623	$ 868,841
Unexpended appropriations	$ 753,872	$ -	$ -	$ 753,872
Cumulative results of operations	172,206	6,028,072	132,168	6,332,446
Total liabilities and net position	$ 932,633	$ 6,636,735	$ 385,791	$ 7,955,159
Statement of Net Cost for the Year Ended September 30, 2023				
Pursue a "100 Percent" Broadband Policy	$ 15,578	$ 6,195,603	$ -	$ 6,211,181
Promote Diversity, Equity, Inclusion, and Accessibility	-	1,889,065	632,316	2,521,381
Empower Consumers	-	-	632,316	632,316
Net cost of operations	$ 15,578	$ 8,084,668	$ 1,264,632	$ 9,364,878
Statement of Changes in Net Position for the Year Ended September 30, 2023				
Unexpended Appropriations:				
Beginning balances	$ 759,909	$ -	$ -	$ 759,909
Appropriations used	(6,037)	-	-	(6,037)
Total unexpended appropriations	753,872	-	-	753,872
Cumulative results of operations:				
Beginning balance	181,747	6,120,336	340,000	6,642,083
Appropriations used	6,037	-	-	6,037
Other than intragovernmental non-exchange revenue	-	7,992,404	1,056,800	9,049,204
Net cost of operations	15,578	8,084,668	1,264,632	9,364,878
Net Change in Cumulative Results of Operations	(9,541)	(92,264)	(207,832)	(309,637)
Total Cumulative Results of Operations	172,206	6,028,072	132,168	6,332,446
Net Position, end of period	$ 926,078	$ 6,028,072	$ 132,168	$ 7,086,318

Note 9 – Funds from Dedicated Collections (continued)

FY 2022	TVBRF	USF	TRS	Total Funds from Dedicated Collections (Consolidated)
Balance Sheet as of September 30, 2022				
Intragovernmental				
Fund Balance with Treasury	$ 972,308	$ 6,280,370	$ 539,923	$ 7,792,601
Total intragovernmental assets	972,308	6,280,370	539,923	7,792,601
Other than intragovernmental				
Accounts receivable, net	734	632,156	22,880	655,770
General property, plant, and equipment, net	-	11,492	1,072	12,564
Advances and prepayments	-	13,024	-	13,024
Total other than intragovernmental	734	656,672	23,952	681,358
Total assets	$ 973,042	$ 6,937,042	$ 563,875	$ 8,473,959
Other than intragovernmental				
Accounts payable	$ 31,386	$ 329,606	$ 5,537	$ 366,529
Deferred revenue	-	-	6,645	6,645
Prepaid contributions	-	100,349	1,916	102,265
Accrued liabilities	-	386,751	209,777	596,528
Total liabilities	$ 31,386	$ 816,706	$ 223,875	$ 1,071,967
Unexpended appropriations	$ 759,909	$ -	$ -	$ 759,909
Cumulative results of operations	181,747	6,120,336	340,000	6,642,083
Total liabilities and net position	$ 973,042	$ 6,937,042	$ 563,875	$ 8,473,959
Statement of Net Cost for the Year Ended September 30, 2022				
Pursue a "100 Percent" Broadband Policy	$ 70,406	$ 6,155,961	$ -	$ 6,226,367
Promote Diversity, Equity, Inclusion, and Accessibility	-	1,692,407	611,224	2,303,631
Empower Consumers	-	-	611,224	611,224
Net cost of operations	$ 70,406	$ 7,848,368	$ 1,222,448	$ 9,141,222
Statement of Changes in Net Position for the Year Ended September 30, 2022				
Unexpended Appropriations:				
Beginning balance	$ 819,020	$ -	$ -	$ 819,020
Appropriations used	(59,111)	-	-	(59,111)
Total unexpended appropriations	759,909	-	-	759,909
Cumulative results of operations:				
Beginning balances	193,042	6,439,878	315,552	6,948,472
Appropriations used	59,111	-	-	59,111
Other than intragovernmental non-exchange revenue	-	7,528,826	1,246,896	8,775,722
Net cost of operations	70,406	7,848,368	1,222,448	9,141,222
Net Change in Cumulative Results of Operations	(11,295)	(319,542)	24,448	(306,389)
Total Cumulative Results of Operations	181,747	6,120,336	340,000	6,642,083
Net Position, end of period	$ 941,656	$ 6,120,336	$ 340,000	$ 7,401,992

Note 9 – Funds from Dedicated Collections (continued)

The FY 2023 and FY 2022 funds from dedicated collections are presented on a combined basis. The tables below summarize the elimination of activities between dedicated collections and all other fund types to arrive at the consolidated assets and liabilities as presented on the balance sheet.

	Dedicated Collections Combined	All Other Amounts (with Eliminations)	Total Combined	Consolidating Eliminations Between Dedicated & All Other	Consolidated
FY 2023					
Assets other than intragovernmental					
Accounts Receivable, Net	$ 747,877	$ 60,079	$ 807,956	$ (47)	$ 807,909
Liabilities other than intragovernmental					
Other liabilities - Other	$ -	$ 25,851	$ 25,851	$ (47)	$ 25,804

	Dedicated Collections Combined	All Other Amounts (with Eliminations)	Total Combined	Consolidating Eliminations Between Dedicated & All Other	Consolidated
FY 2022					
Assets other than intragovernmental					
Accounts Receivable, Net	$ 655,770	$ 30,186	$ 685,956	$ (79)	$ 685,877
Liabilities other than intragovernmental					
Other liabilities - Other	$ -	$ 26,538	$ 26,538	$ (79)	$ 26,459

Note 10 – 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 11 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders totaled $21,727,498 as of September 30, 2023 and $24,611,515 as of September 30, 2022. The following summarizes Undelivered Orders as of September 30, 2023 and September 30, 2022:

Note 11 – Undelivered Orders at the End of the Period (continued)

FY 2023	Federal	Non-Federal	Total
Undelivered Orders-Unpaid	$ 6,893	$ 21,704,776	$ 21,711,669
Undelivered Orders-Paid	2,805	13,024	15,829
Total	$ 9,698	$ 21,717,800	$ 21,727,498

FY 2022	Federal	Non-Federal	Total
Undelivered Orders-Unpaid	$ 11,545	$ 24,585,220	$ 24,596,765
Undelivered Orders-Paid	1,726	13,024	14,750
Total	$ 13,271	$ 24,598,244	$ 24,611,515

Note 12 – Permanent Indefinite Appropriations

The Commission has permanent indefinite appropriations available to fund its USF programs and TRS, 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.

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.

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 2023, Congress limited the amount of the auction proceeds that may be retained and made available for obligation to $132,231.

Note 13 – Legal Arrangements Affecting Use of Unobligated Balances

Offsetting collections received in excess of $390,192 in FY 2023 and $381,950 in FY 2022 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 14 – 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 2022 and the amounts presented in the FY 2024 Budget of the United States Government. The FY 2025 Budget of the United States Government, which will include actual numbers for FY 2023, has not been published at this time. Pursuant to 31 U.S.C. § 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 15 – Custodial Revenues

In accordance with the provisions of SFFAS 7, *Accounting for Revenue & Other Financing Sources*, the Commission collects non-exchange revenues, on a modified cash basis of accounting. The non-exchange revenues are not reported in the Commission's net cost or net position. Custodial collections consist of 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 L. The total custodial non-exchange collections as of September 30, 2023 and September 30, 2022 were $21,282 and $48,568, respectively. There were no material refunds issued for the period ended September 30, 2023 and September 30, 2022.

Note 16 – Reconciliation of Net Cost to Net Outlays (Budget to Accrual Reconciliation)

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.

The following analysis illustrates this reconciliation by listing the Commission's key differences between net cost and net outlays for the reporting period as of September 30, 2023 and September 30, 2022.

Note 16 – Reconciliation of Net Costs to Net Outlays (continued)

FY 2023	Intragovernmental	Other than Intragovernmental	Total
Net Cost of Operations	$ 127,098	$ 17,910,819	$ 18,037,917
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, plant, and equipment depreciation	-	(14,107)	(14,107)
Increase/(Decrease) in Assets:			
Accounts receivable, net	(6)	19,819	19,813
Other assets	1,599	-	1,599
(Increase)/Decrease in Liabilities:			
Accounts payable	(161)	(153,635)	(153,796)
Federal employee benefits payable	-	(1,599)	(1,599)
Other liabilities	(761)	36,423	35,662
Financing sources:			
Imputed cost	(14,367)	-	(14,367)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	$ (13,696)	$ (113,099)	$ (126,795)
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Acquisition of capital assets	-	24,160	24,160
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	$ -	$ 24,160	$ 24,160
Other Reconciling Items:			
Custodial/non-exchange revenue	(8,008)	-	(8,008)
Other temporary timing differences	-	(3,134)	(3,134)
Total Other Reconciling Items	$ (8,008)	$ (3,134)	$ (11,142)
NET OUTLAYS (Calculated Total)	$ 105,394	$ 17,818,746	$ 17,924,140
Budgetary Agency Outlays, net (SBR 4210)			
Outlays, net (total) (discretionary and mandatory)			17,954,145
Distributed offsetting receipts (-)			(30,005)
Budgetary Agency Outlays, net			$ 17,924,140

Note 16 – Reconciliation of Net Costs to Net Outlays (continued)

FY 2022	Intragovernmental	Other than Intragovernmental	Total
Net Cost of Operations	$ 115,179	$ 15,377,412	$ 15,492,591
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, plant, and equipment depreciation	-	(19,657)	(19,657)
Increase/(Decrease) in Assets:			
Accounts receivable, net	(1)	(4,099)	(4,100)
Other assets	87	(5,000)	(4,913)
(Increase)/Decrease in Liabilities:			
Accounts payable	1,299	(163,589)	(162,290)
Federal employee benefits payable	-	1,682	1,682
Other liabilities	(439)	(109,591)	(110,030)
Financing sources:			
Imputed cost	(12,789)	-	(12,789)
Total Components of Net Operating Cost Not Part of the Budgetary Outlays	$ (11,843)	$ (300,254)	$ (312,097)
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Acquisition of capital assets	-	30,539	30,539
Total Components of the Budget Outlays That Are Not Part of Net Operating Cost	$ -	$ 30,539	$ 30,539
Other Reconciling Items:			
Custodial/non-exchange revenue	(14,259)	-	(14,259)
Other temporary timing differences	-	(1,402)	(1,402)
Total Other Reconciling Items	$ (14,259)	$ (1,402)	$ (15,661)
NET OUTLAYS (Calculated Total)	$ 89,077	$ 15,106,295	$ 15,195,372
Budgetary Agency Outlays, net (SBR 4210)			
Outlays, net (total) (discretionary and mandatory)			15,235,623
Distributed offsetting receipts (-)			(40,251)
Budgetary Agency Outlays, net			$ 15,195,372

Note 17 – 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 E-Rate. USAC, as the administrator of the USF, is responsible for the effective administration of the USF programs, including billing, collection, and disbursement.

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.

Note 17 – Disclosure Entities (continued)

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.

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.

In accordance with SFFAS 47, *Reporting Entity,* none of these entities substantially meet the requirements for consolidated entities. As of September 30, 2023, 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, or LNPA program. USAC and NECA are all not-for-profit corporations and LNPA is a program 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. LNPA program's annual reports are submitted to North American Portability Management LLC, which provides them to the FCC.

Note 17 – Disclosure Entities (continued)

The following summarizes the balances from transactions with Disclosure Entities as of September 30, 2023 and September 30, 2022.

FY 2023	USAC	NECA	Total
Balance Sheet			
Advances and prepayments (Note 1 G)	$ 13,024	$ -	$ 13,024
Accounts payable[1]	14,526	-	14,526
Statement of Net Cost			
Net cost of operations[2]	$ 244,464	$ 435	$ 244,899
Statement of Changes in Net Position			
Net cost of operations[2]	$ 244,464	$ 435	$ 244,899

FY 2022	USAC	NECA	Total
Balance Sheet			
Advance and prepayments (Note 1 G)	$ 13,024	$ -	$ 13,024
Accounts payable[1]	17,475	-	17,475
Statement of Net Cost			
Net cost of operations[2]	$ 220,957	$ 413	$ 221,370
Statement of Changes in Net Position			
Net cost of operations[2]	$ 220,957	$ 413	$ 221,370

Note 18 – COVID-19 Activity

The charts below summarize the amounts received and used under each program as of September 30, 2023 and September 30, 2022, for the Government-wide Treasury Account Symbol Adjusted Trial-Balance System's (GTAS) Disaster and Emergency Funding (DEF) Codes N, O and V. The authority for the DEF Codes are as follows:

[1] This portion in the accounts payable consists of the administrative fee for USF due to USAC and NECA. USAC's administrative fee for EBBP, ACP, COVID-19 Telehealth Program, and ECF are included in Note 18.

[2] This portion of the operation expenses includes the administrative fees incurred in USF. Administrative fees for EBBP, ACP, COVID-19 Telehealth Program, and ECF are included in Note 18. 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 18 – COVID-19 Activity (continued)

N – Coronavirus Aid, Relief, and Economic Security (CARES) Act, P. L. 116-136, Emergency

O – CARES Act, P. L. 116-136, Nonemergency; Paycheck Protection Program and Health Care Enhancement Act, P. L. 116-139, Nonemergency; Consolidated Appropriations Act, 2022, P. L. 116-260, Nonemergency; American Rescue Plan Act of 2022 (ARPA), P. L. 117-2, Nonemergency

V – ARPA, P. L. 117-2, Nonemergency

FY 2023

COVID-19 Activity Funded by DEF Code N, O & V	COVID-19 Telehealth (Round 1) DEF: N	COVID-19 Telehealth (Round 2) DEF: O	EBCF-EBBP DEF: O	ECF DEF: V	SCRP DEF: O	Total
Budgetary Resources: Unobligated (and unexpired) Balance Carried Forward from PY	$ 1	$ 296	$ 45,250	$ 1,401,576	$ 54,191	$ 1,501,314
Rescissions(-)/Other Changes (+/-) to Budgetary Resources	236	2,997	57,862	382,986	-	444,081
Budgetary Resources Obligated (-)	-	(21)	(64,925)	(1,160,344)	(7,517)	(1,232,807)
Budgetary Resources: Ending Unobligated (and unexpired) Balance to be Carried Forward	$ 237	$ 3,272	$ 38,187	$ 624,218	$ 46,674	$ 712,588
Outlays, Net (Total)	$ 6,068	$ 100,810	$ 7,681	$ 1,877,562	$ 251,550	$ 2,243,671

FY 2022

COVID-19 Activity Funded by DEF Code N, O & V	COVID-19 Telehealth (Round 1) DEF: N	COVID-19 Telehealth (Round 2) DEF: O	EBCF-EBBP DEF: O	ECF DEF: V	SCRP DEF: O	Total
Budgetary Resources: Unobligated (and unexpired) Balance Carried Forward from PY	$ 5,903	$ 160,256	$ 2,292,443	$ 5,860,909	$ 1,893,182	$ 10,212,693
Rescissions(-)/Other Changes (+/-) to Budgetary Resources	7,587	50	1,277	139,539	-	148,453
Budgetary Resources Obligated (-)	(13,489)	(160,010)	(2,248,470)	(4,598,872)	(1,838,991)	(8,859,832)
Budgetary Resources: Ending Unobligated (and unexpired) Balance to be Carried Forward	$ 1	$ 296	$ 45,250	$ 1,401,576	$ 54,191	$ 1,501,314
Outlays, Net (Total)	$ 5,274	$ 101,254	$ 2,581,460	$ 1,896,104	$ 7,058	$ 4,591,150

COVID-19 Telehealth Program (Round 1) – Due to the COVID-19 pandemic, the Commission established the COVID-19 Telehealth Program through a *Report and Order* released on April 2, 2020. The Commission began accepting applications for the COVID-19 Telehealth Program (Round 1) on April 13, 2020 and stopped accepting applications on June 25, 2020. Round 1 of the COVID-19 Telehealth Program was funded through a $200,000 Congressional appropriation as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, to immediately support eligible health care providers responding to the pandemic by providing funding for telecommunications services, information services, and connected devices necessary to provide critical connected care services whether for treatment of the COVID-19 disease or other health conditions during the COVID-19 pandemic. The COVID-19 Telehealth Program is an emergency funding program, not a grant program, that is designed to provide flexibility for eligible health care providers that apply for and receive funding commitments, and then request reimbursement for

Note 18 – COVID-19 Activity (continued)

eligible expenses that they have purchased and received from their service providers or vendors under Round 1 of the COVID-19 Telehealth Program.

In FY 2023, no amount was obligated from the de-obligated funds from Round 1 and net outlays were $6,068. The de-obligated fund balance of $237, net of the $32 recission, was carried forward. In FY 2022, the amount obligated from the de-obligated funds from Round 1 was $13,489 and net outlays were $5,274. The de-obligated fund balance of $1 was carried forward.

<u>COVID-19 Telehealth Program (Round 2)</u> – On December 27, 2020, the Consolidated Appropriations Act, 2022 was signed into law, which appropriated an additional $249,950 to the Commission's COVID-19 Telehealth Program (Round 2) of which $50 was for the Office of Inspector General (OIG). This additional funding allows the Commission to continue its efforts to expand telehealth and connected care throughout the country and enable patients to access necessary health care services while helping slow the spread of the disease. Per congressional mandate, the Commission was required to seek comment on various ideas related to the new funding, including the criteria to use to evaluate applications and how to treat pending applications from Round 1. The Commission released a Public Notice seeking comment on these issues on January 6, 2021. On March 30, 2021, the Commission released a *Report and Order and Order on Reconsideration* setting forth additional details about the policies and procedures that would apply during Round 2. On April 15, 2021, the Bureau released a Public Notice announcing the duration of the Round 2 application filing window, which opened on April 29, 2021 and closed on May 6, 2021.

On August 26, 2021, WCB released a Public Notice announcing the first group of funding to 62 awardees for Round 2, and subsequently released three additional Public Notices, on September 29, 2022, October 21, 2021, and November 9, 2022, announcing additional funding awardees. On July 29, 2023, a Public Notice announced that the deadline for all purchases and implementation of services is October 31, 2023 and the deadline for submission of all invoices and requests for reimbursement is October 31, 2023.

For FY 2023, the Commission obligated $21 of the Round 2 funding and had net outlays of $100,810. Unobligated balances of $3,272 were carried forward. In FY 2022, the Commission obligated $160,010 of the Round 2 funding and had net outlays of $101,254. Unobligated balances of $296 were carried forward. Also, see Note 1 H and L, and Note 3.

<u>Emergency Broadband Connectivity Fund, Emergency Broadband Benefit Program (EBCF-EBBP)</u> – On December 27, 2020, the Consolidated Appropriations Act, 2021 (Consolidated Appropriations Act) was signed into law. In the Consolidated Appropriations Act, Congress appropriated $3,200,000 for the Emergency Broadband Connectivity Fund (EBCF) for FY 2021, to remain available until expended or six months after the end of the public emergency. The Consolidated Appropriations Act directed the Commission to use that funding to establish the Emergency Broadband Benefit Program (EBBP), under which eligible low-income households may receive a discount off the cost of broadband service and certain connected devices during an emergency period relating to the COVID-19 pandemic, and participating providers can receive a reimbursement for such discounts. Enrollments in the EBBP ceased on December 30, 2021 and the successor program, the Affordable Connectivity Program (ACP) began on December 31, 2021. Note 1 P provides information about the ACP which is an extension of the EBCF-EBBP and is not subject to the EBCF-EBBP's COVID-19 funding expiration.

For FY 2023, the FCC obligated $64,925 of the EBCF-EBBP and had net outlays of $7,681. Unobligated balances of $38,187 were carried forward. In FY 2022, the FCC obligated $2,248,470 of the EBCF-EBBP and had net outlays of $2,581,460. Unobligated balances of $45,250 were carried forward. Also, see Note 1 H and L, and Note 3.

Note 18 – COVID-19 Activity (continued)

Emergency Connectivity Fund (ECF) – To help schools and libraries provide connected devices, such as a laptop, tablet, or similar end-user devices, and connectivity to students, school staff, and library patrons during the COVID-19 pandemic, Congress established a $7,172,000 ECF (of which $1,000 was for OIG), to remain available until September 30, 2030 as part of the American Rescue Plan Act of 2022 (ARPA) signed into law on March 11, 2021. Pursuant to congressional directive, on March 16, 2021, WCB sought comment on the provision of support from the ECF consistent with section 7402 of the ARPA. Subsequently, on May 10, 2021, the Commission released a *Report and Order* establishing the ECF Program and promulgating rules for the distribution of funding from the ECF. The *Report and Order* also designated the USAC as the program administrator with Commission oversight, and leverages the processes and structures used in the E-Rate Program for the benefit of schools and libraries already familiar with the E-Rate Program. It also adopts procedures to protect the limited funding from waste, fraud, and abuse.

The initial ECF Program application filing window opened on June 29, 2021 and closed on August 13, 2021. During the initial application filing window, eligible schools, libraries, and consortia of eligible schools and libraries, submitted requests for funding to purchase eligible equipment and services between July 1, 2021 and June 30, 2022 for use by students, school staff and library patrons who would otherwise lack sufficient access to connected devices and/or broadband connectivity to engage in remote learning during the COVID-19 emergency period. In view of outstanding demand and the recent spike in coronavirus cases, the FCC opened a second application filing window for schools and libraries to request funding for connected devices and broadband connections for off-campus to meet the unmet needs of students, school staff, and library patrons during the current school year (i.e., July 1, 2021 through June 30, 2022). The second ECF Program application filing window opened on September 28 and closed on October 13, 2021. On March 23, 2022, the Commission announced that a third application filing window would open on April 28, 2022, and close on May 13, 2022. During the third filing window, eligible schools and libraries could request funding for eligible equipment, non-recurring services, and up to 12 months of recurring services that will be delivered or received between July 1, 2022, through December 31, 2023. ECF Program support is only available for purchases of eligible equipment and services made by June 30, 2024.

For FY 2023, the FCC obligated $1,160,344 and had net outlays of $1,877,562. Unobligated balances of $624,218 were carried forward. In FY 2022, the FCC obligated $4,598,872 and had net outlays of $1,896,104. Unobligated balances of $1,401,576 were carried forward. Also, see Note 1 H and L, and Note 3.

Secure & Trusted Communications Networks Reimbursement Program or the Supply Chain Reimbursement Program (SCRP) – On March 12, 2020, the Secure and Trusted Communications Networks Act of 2019 (Secure Networks Act) was signed into law. The Secure Networks Act, among other measures, directed the Commission to establish the SCRP to fund the removal, replacement, and disposal of covered communications equipment or services that pose an unacceptable risk to the national security of the United States or the security and safety of U.S. persons from the networks of providers of advanced communications service. On December 10, 2020, the Commission adopted a *Second Report and Order* implementing the Secure Networks Act by establishing rules for the SCRP. The SCRP provides funding allocations to eligible providers based on their estimated costs. SCRP recipients can then obtain funding disbursements from their allocation upon showing of actual expenses incurred. SCRP recipients have one year from the initial disbursement to complete the permanent removal, replacement, and disposal of covered communications equipment or services, unless a general and individual extensions of that deadline is granted by the Commission. Recipients of SCRP funds shall use these funds solely to: (1) permanently remove covered communications equipment and services from their networks; (2) replace the covered communications equipment and services with non-covered equipment or services; and (3) dispose of the covered communications equipment and services in accordance with the Secure Networks Act.

On December 27, 2020, the Consolidated Appropriations Act, 2021 (Consolidated Appropriations Act), among other things, appropriated $1,900,000 to "carry out" the SCRP. In addition, the legislation amended the Secure Networks Act, expanding program eligibility from providers of advanced communications service with two million or fewer customers to providers with ten million or fewer customers. The Consolidated Appropriations Act also amended the definition of a provider of advanced communications service to specifically include certain non-commercial education institutions, healthcare providers, and libraries providing advanced communications service, and added a method for prioritizing funding that differs from the approach adopted by the Commission in the *Second Report and Order*. The Commission released a *Third Report and Order*, on July 14, 2021, implementing the changes required by the Consolidated Appropriations Act and making additional clarifications about the SCRP. Notably, the Commission stated that the SCRP is limited to reimbursing the costs of removal, replacement, and disposal to communications equipment and service produced or provided by Huawei and ZTE that was obtained on or before June 30, 2020.

On April 28, 2021, the Wireline Competition Bureau (WCB) announced the selection of a contractor as the SCRP Fund Administrator to assist with processing applications and administering the Reimbursement Program. On August 3, 2021, WCB released a public notice adopting final procedures for and providing eligible providers of advanced communications services with additional guidance regarding the application filing and reimbursement process for the SCRP. WCB also finalized the information fields on the new FCC Form 5640, which participants must submit to request funding allocations and disbursements from the SCRP. The filing window to accept applications to participate in the SCRP opened on October 29, 2021 and closed on January 28, 2022. WCB issued decisions approval and denial decisions on applications on July 15, 2022 and proceeded with issuing allocations consistent with the requirements of the Secure Networks Act and the Commission's rules.

For FY 2023, $7,517 was obligated and had net outlays of $251,550. Unobligated balances of $46,674 were carried forward. In FY 2022, $1,838,991 was obligated with net outlays of $7,058. Unobligated balances of $54,191 were carried forward. Also, see Note 1 H and L, and Note 3.

Note 19 – Subsequent Event

On October 30, 2023, the Wireline Competition Bureau released Public Notice DA 23-1025 that authorized and directed the Universal Service Administrative Company (USAC) to obligate and disburse a total amount of $18,281,853 over a 15-year term, from January 1, 2024 to December 31, 2038, for carriers that accepted the offer of Enhanced A-CAM support. The total authorized amount incorporated obligations carried by ACAM and ACAM II participants who accepted E-ACAM but will not transfer until January 2024, and Connect America Fund Broadband Loop Support (CAF BLS) recipients who are subject to true-ups for past year's support which will be offset against the Enhanced A-CAM and transitional support. USAC began recording obligations for this program in October 2023 which factors in support currently obligated to carriers participating in ACAM and CAF BLS programs.

Note 20 – Reclassification of Financial Statement Line Items for Financial Report Compilation Process

To prepare the *Financial Report of the U.S. Government* (*Financial Report*), the U.S. Department of 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 Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Statement of Net Cost and a Reclassified Statement of Changes in Net Position. Treasury eliminates intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the *Financial Report* statements. This note shows the FCC's financial statements and the FCC's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated *Financial Report* line items. A copy of the 2022 *Financial Report* can be found here: Bureau of the Fiscal Service -Reports, Statements & Publications (treasury.gov) and a copy of the 2023 *Financial Report* will be posted to this same site as soon as it is released.

The term "intragovernmental" is used in this note to refer to amounts that result from other components of the Federal Government.

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.

Note 20 – Reclassification of Financial Statement Line Items for Financial Report Compilation Process (continued)

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Years Ended September 30, 2023 and September 30, 2022

FY 2023 FCC SNC		Line Items Used to Prepare FY 2023 Government-wide SNC			
Financial Statement Line	Amounts	Dedicated Collections Combined	Other than Dedicated Collections (with Eliminations)	Total	Reclassified Financial Statement Line
Gross Costs	$ 18,592,647	$ 9,364,878	$ 9,099,883	$ 18,464,761	*Non-Federal Gross Cost*
					Intragovernmental Costs
	-	-	54,798	54,798	Benefit Program Costs
	-	-	14,367	14,367	Imputed Costs
	-	-	175,313	175,313	Buy/Sell Costs
	-	-	15,640	15,640	Other Expenses (w/o Reciprocals)
	-	-	*260,118*	*260,118*	*Total Intragovernmental Costs*
Total Gross Costs	*$ 18,592,647*	*$ 9,364,878*	*$ 9,360,000*	*$ 18,724,878*	*Total Reclassified Gross Costs*
Earned Revenue[3]	(554,730)	-	(421,710)	(421,710)	Non-Federal Earned Revenue
					Intragovernmental Revenue
	-	-	(133,017)	(133,017)	Buy/Sell Revenue
	-	-	(3)	(3)	Borrowing and Other Interest Revenue
	-	-	*(133,020)*	*(133,020)*	*Total Intragovernmental Earned Revenue*
Total Earned Revenue	*(554,730)*	-	*(554,730)*	*(554,730)*	*Total Reclassified Earned Revenue*
Net Cost	$ 18,037,917	$ 9,364,878	$ 8,805,270	$ 18,170,148	Net Cost
Exchange Statement of Custodial Activity					
Refunds and Other Payments *Auctions Salaries & Expenses*	-	-	(132,231)	(132,231)	Buy/Sell Revenue (Intradepartmental Eliminations for Auctions Salaries & Expenses)[3]
Net Cost of Operations	$ 18,037,917	$ 9,364,878	$ 8,673,039	$ 18,037,917	Net Cost of Operations

[3] 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 auction-related activity were appropriated at $132,231 in FY 2023 and $128,621 for FY 2022. 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. Also, at the agency level, standard general ledger (SGL) 679000 Other Expenses Not Requiring Budgetary Resources, custodial is not cross walked to the Statement of Net Cost. At the government-wide level, SGL 679000 Other Expenses Not Requiring Budgetary Resources, custodial and non-custodial are cross walked to the Reclassified Statement of Net Cost.

Note 20 – Reclassification of Financial Statement Line Items for Financial Report Compilation Process (continued)

FY 2022 FCC SNC		Line Items Used to Prepare FY 2022 Government-wide SNC			
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**All Other than Dedicated Collections (with Eliminations)**	**Total**	**Reclassified Financial Statement Line**
Gross Costs	$ 16,039,157	$ 9,141,222	$ 6,781,592	$ 15,922,814	*Non-Federal Gross Cost*
	-	-	51,581	51,581	Benefit Program Costs
	-	-	12,789	12,789	Imputed Costs
	-	-	166,169	166,169	Buy/Sell Costs
	-	-	14,423	14,423	Other Expenses (w/o Reciprocals)
	-	**-**	***244,963***	***244,963***	***Total Intragovernmental Costs***
Total Gross Costs	***$ 16,039,157***	***$ 9,141,222***	***$ 7,026,555***	***$ 16,167,777***	*Total Reclassified Gross Costs*
Earned Revenue[3]	(546,566)	-	(416,867)	(416,867)	Non-Federal Earned Revenue
					Intragovernmental Revenue
	-	-	(129,697)	(129,697)	Buy/Sell Revenue
	-	-	(2)	(2)	Borrowing and Other Interest Revenue
	-	**-**	***(129,699)***	***(129,699)***	***Total Intragovernmental Earned Revenue***
Total Earned Revenue	***(546,566)***	**-**	***(546,566)***	***(546,566)***	***Total Reclassified Earned Revenue***
Gain/Loss-Pension/ORB/OPEB Assumptions					Gain/Loss on Changes in Actuarial Assumptions (Non-Federal)
Net Cost of Operations	**$ 15,492,591**	**$ 9,141,222**	**$ 6,479,990**	**$ 15,621,212**	**Net Cost of Operations**
Exchange Statement of Custodial Activity *Refunds and Other Payments* *Auctions Salaries & Expenses*	**-**	**-**	**(128,621)**	**(128,621)**	Buy/Sell Revenue (Intradepartmental Eliminations for Auctions Salaries & Expenses)[3]
Net Cost of Operations	**$ 15,492,591**	**$ 9,141,222**	**$ 6,351,369**	**$ 15,492,591**	**Net Cost of Operations**

Note 20 – Reclassification of Financial Statement Line Items for Financial Report Compilation Process (continued)

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position for the Years Ended September 30, 2023 and September 30, 2022

FY 2023 FCC SCNP		Line Items Used to Prepare FY 2023 SCNP			
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**Other than Dedicated Collections (with Eliminations)**	**Total**	**Reclassified Financial Statement Line**
UNEXPENDED APPRORPATIONS					
Unexpended Appropriations, Beginning Balance	$ 20,286,013	$ 7,401,992	$ 19,788,181	$ 27,190,173	Net position, beginning of period - adjusted
Appropriations Received	-	-	(32)	(32)	Appropriations received as adjusted
Appropriations Used	(8,750,791)	(6,037)	(8,744,754)	(8,750,791)	Appropriations Used
Other adjustments to appropriations	(32)	-	-	-	Other adjustments
Total Unexpended Appropriations	**$ 11,535,190**	**$ 7,395,955**	**$ 11,043,395**	**$ 18,439,350**	
CUMULATIVE RESULTS OF OPERATIONS					
Cumulative Results, Beginning Balance	$ 6,904,160				
Appropriations Used	8,750,791	$ 6,037	$ 8,744,754	$ 8,750,791	Appropriations Used
Non-Federal Non-Exchange Revenue					***Non-Federal Non-Exchange Revenue***
Non-Exchange Revenue	9,049,204	9,049,204	21,641	9,070,845	Other Taxes and Receipts
SCA: Sources of Cash Collections: Fines and Penalties	21,282				
SCA: Sources of Cash Collections: Spectrum Auctions	108,670	-	108,670	108,670	Miscellaneous Earned Revenues
SCA: Accrual Adjustments: Fines and Penalties	358				
Total Non-Exchange Revenue		9,049,204	130,311	9,179,515	***Total Non-Federal Non-Exchange Revenues***
					Federal Non-Exchange Revenue
Non-Exchange Revenue - Intragovernmental	1,214	-	1,214	1,214	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government (RC 15)
		-	1,214	1,214	***Total Non-Exchange Revenue***
Total Non-Exchange Revenues	9,180,728	9,049,204	131,524	9,180,728	*Total Non-Exchange Revenue*
Other	(37,052)				
SCA: Disposition of Collections: (Increase)/Decrease in Amounts Yet to be Transferred (+/-)	23,203	-	23,210	23,210	Accrual for non-entity amounts to be collected and transferred to the General Fund of the U.S. Government (RC 48)
SCA: Disposition of Collections: Transferred to Others: U.S. Treasury	(21,282)	-	(58,341)	(58,341)	Non-Entity Collections Transferred to the General Fund
Total Other	(35,131)	-	(35,131)	(35,131)	*Total Reclassified Other*
Imputed Financing	14,367	-	14,367	14,367	Imputed Financing Sources (Federal)
SCA: Disposition of Collections: Refunds and Other Payments Auctions, Salaries & Expenses (FCC)[3]	(132,231)				
Total Financing Sources	17,764,157				
Net Cost of Operations	18,037,917	9,364,878	8,805,270	18,170,148	**Net Cost of Operations**
Ending Balance – Cumulative Results of Operations	6,644,767				
Total Net Position	$ 18,179,957	$ 7,086,318	$ 11,093,639	18,179,957	**Net Position**

Note 20 – Reclassification of Financial Statement Line Items for Financial Report Compilation Process (continued)

FY 2022 FCC SCNP		Line Items Used to Prepare FY 2022 SCNP			
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**All Other than Dedicated Collections (with Eliminations)**	**Total**	**Reclassified Financial Statement Line**
UNEXPENDED APPRORPATIONS					
Unexpended Appropriations, Beginning Balance	$ 12,547,709	$ 7,767,492	$ 11,957,756	$ 19,725,248	Net Position, Beginning of Period as adjusted
Appropriations Received, General Funds	14,200,000	-	14,200,000	14,200,000	Appropriations Received as Adjusted
Appropriations Used	(6,461,696)	(59,111)	(6,402,585)	(6,461,696)	Appropriations Used
Total Unexpended Appropriations	**$ 20,286,013**	**$ 7,708,381**	**$ 19,755,171**	**$ 27,463,552**	
CUMULATIVE RESULTS OF OPERATIONS					
Cumulative Results, Beginning Balance	$ 7,177,538				
Appropriations Used	6,461,696	59,111	6,402,585	6,461,696	Appropriations Used
Non-Exchange Revenue	8,775,722				***Non-Federal Non-Exchange Revenue***
SCA: Sources of Cash Collections: Fines and Penalties	48,568	8,775,722	48,255	8,823,977	Other Taxes and Receipts
SCA: Sources of Cash Collections: Spectrum Auctions	22,514,626	-	22,514,626	22,514,626	Miscellaneous Earned Revenues
SCA: Accrual Adjustments: Fines and Penalties	(313)				
		8,775,722	22,562,881	31,338,603	***Total Non-Federal Non-Exchange Revenues***
					Intragovernmental Non-Exchange Revenue
		-	(22,416,732)	(22,416,732)	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government (RC 15)
Non-Exchange Revenue - Intragovernmental	390	-	390	390	Collections transferred into a TAS Other Than the General Fund of the U.S. Government - Nonexchange (RC 15)
		-	(22,416,342)	(22,416,342)	***Total Intragovernmental Non-Exchange Revenue***
Total Non-Exchange Revenues	31,338,993	8,775,722	146,539	8,922,261	*Total Reclassified Non-Exchange Revenue*
Imputed Financing	12,789	-	12,789	12,789	Imputed Financing Sources (Federal)
Other	(31,384)				
SCA: Disposition of Collections: (Increase)/Decrease in Amounts Yet to be Transferred (+/-)	81,120,016	-	81,120,009	81,120,009	Accrual for non-entity amounts to be collected and transferred to the General Fund of the U.S. Government (RC 48)
SCA: Disposition of Collections: Transferred to Others:					
U.S. Treasury	(81,137,544)	-	(81,168,922)	(81,168,922)	Non-Entity Collections Transferred to the General Fund
Spectrum Relocation Fund (OMB)	(22,418,284)				
Public Safety Trust Fund (NTIA)	1,552				
		-	(36,124)	(36,124)	*Total Intragovernmental Other*
Total Other	(22,452,855)	-	(36,124)	(36,124)	*Total Reclassified Other*
SCA: Disposition of Collections: Refunds and Other Payments Auctions, Salaries & Expenses (FCC)[3]	(128,621)				
Total Financing Sources	15,219,213				
Net Cost of Operations	15,492,591	9,141,222	6,479,990	15,621,212	**Net Cost of Operations**
Ending Balance – Cumulative Results of Operations	6,904,160				
Total Net Position	$ 27,190,173	$ 7,401,992	$ 19,788,181	$ 27,190,173	**Net Position**

Required Supplementary Information

A. Schedule of Budgetary Resources by Major Account

For the Years Ended September 30, 2023 and September 30, 2022
(Dollars in thousands)

OMB Circular No. A-136, *Financial Reporting Requirements—Revised*, 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 S&E, Auctions, COVID-19 Telehealth, EBCF-EBBP, ACF, SCRP, ECF, TVBRF, USF and TRS. S&E represents general salaries and expenses of the Commission. Auctions include salaries and expenses of the spectrum auctions program. The COVID-19 Telehealth Program represents support for eligible health care providers responding to the pandemic by providing funding for telecommunications services, information services, and connected devices necessary to provide critical connected care services whether for treatment of the COVID-19 disease or other health conditions during the COVID-19 pandemic. The EBCF-EBBP under which eligible low-income households may receive a discount off the cost of broadband service and certain connected devices during an emergency period relating to the COVID-19 pandemic. The ACF consists of the ACP which eligible low-income households may receive a discount off the cost of broadband service and certain connected devices; broadband mapping and the ACP Outreach Grant Program. The SCRP represents the program under which reimbursements for the removal, replacement, and disposal of covered communications equipment or services that pose an unacceptable risk to the national security of the United States or the security and safety of U.S. persons from the networks of providers of advanced communications service. The ECF assists schools and libraries by providing connected devices such as laptops, tablets, or similar end-user devices, and connectivity, to students, school staff, and library patrons during the COVID-19 Pandemic. The TVBRF represents reimbursements of relocation costs for eligible entities and for consumer education relating to the reorganization of broadcast television. USF includes the High Cost, Lifeline, Rural Health Care, E-Rate and the CCPP programs. The TRS Fund represents a program established to support relay services necessary for telecommunications access by speech or hearing-impaired individuals. Non-major budgetary accounts are aggregated under the Other column.

Reflected in the following chart are the major budgetary accounts of the Commission that are aggregated and presented in the Combined Statement of Budgetary Resources for the years ended September 30, 2023 and September 30, 2022.

Required Supplementary Information (continued)

A. Schedule of Budgetary Resources by Major Account (continued)

FY 2023	S&E	Auctions	COVID-19 Telehealth	ACF (ACP)	EBCF (EBBP)	SCRP	ECF	TVBRF	USF	TRS	Other	Total
Budgetary Resources:												
Unobligated balance from prior year budget authority, net	$ 118,418	$ 46,001	$ 3,564	$ 12,172,936	$ 103,112	$ 54,191	$ 1,784,562	$ 945,491	$ (11,750,696)	$ 506,820	$ 2,852	$ 3,987,251
Appropriations (discretionary and mandatory)	-	-	(32)	-	-	-	-	-	7,900,702	1,006,654	-	8,907,324
Spending authority from offsetting collections (discretionary and mandatory)	390,952	132,231	-	-	-	-	-	-	-	-	11	523,194
Total budgetary resources	$ 509,370	$ 178,232	$ 3,532	$ 12,172,936	$ 103,112	$ 54,191	$ 1,784,562	$ 945,491	$ (3,849,994)	$ 1,513,474	$ 2,863	$ 13,417,769
Status of Budgetary Resources:												
New obligations and upward adjustments (total)	$ 425,409	$ 121,401	$ 21	$ 6,672,182	$ 64,925	$ 7,517	$ 1,160,344	$ 83,322	$ 7,401,276	$ 1,244,625	$ -	$ 17,181,022
Unobligated balance, end of year:												
Apportioned, unexpired accounts	83,708	56,831	3,511	5,500,754	38,187	46,674	441,232	783,419	-	268,849	-	7,223,165
Exempt from apportionment, unexpired accounts	-	-	-	-	-	-	-	-	(11,251,270)	-	-	(11,251,270)
Unapportioned, unexpired accounts	15	-	-	-	-	-	182,986	78,750	-	-	2,863	264,614
Unexpired unobligated balance, end of year	83,723	56,831	3,511	5,500,754	38,187	46,674	624,218	862,169	(11,251,270)	268,849	2,863	(3,763,491)
Expired unobligated balance, end of year	238	-	-	-	-	-	-	-	-	-	-	238
Unobligated balance, end of year (total)	83,961	56,831	3,511	5,500,754	38,187	46,674	624,218	862,169	(11,251,270)	268,849	2,863	(3,763,253)
Total status of budgetary resources	$ 509,370	$ 178,232	$ 3,532	$ 12,172,936	$ 103,112	$ 54,191	$ 1,784,562	$ 945,491	$ (3,849,994)	$ 1,513,474	$ 2,863	$ 13,417,769
Outlays, Net:												
Outlays, net (discretionary and mandatory)	$ 13,809	$ (16,293)	$ 106,878	$ 6,194,212	$ 7,681	$ 251,550	$ 1,877,562	$ 40,778	$ 8,240,522	$ 1,237,457	$ (11)	$ 17,954,145
Distributed offsetting receipts (-)	(30,005)	-	-	-	-	-	-	-	-	-	-	(30,005)
Agency outlays, net (discretionary and mandatory)	$ (16,196)	$ (16,293)	$ 106,878	$ 6,194,212	$ 7,681	$ 251,550	$ 1,877,562	$ 40,778	$ 8,240,522	$ 1,237,457	$ (11)	$ 17,924,140

Required Supplementary Information (continued)

A. Schedule of Budgetary Resources by Major Account (continued)

FY 2022	S&E	Auctions	COVID-19 Telehealth	ACF (ACP)	EBCF (EBBP)	SCRP	ECF	TVBRF	USF	TRS	Other	Total
Budgetary Resources:												
Unobligated balance from prior year budget authority, net	$ 126,999	$ 31,708	$ 173,797	$ -	$ 2,293,720	$ 1,893,182	$ 6,000,448	$ 853,967	$ (8,159,749)	$ 492,326	$ 2,845	$ 3,709,243
Appropriations (discretionary and mandatory)	-	-	-	14,200,000	-	-	-	-	7,696,154	1,266,669	-	23,162,823
Spending authority from offsetting collections (discretionary and mandatory)	382,666	128,621	-	-	-	-	-	-	-	-	7	511,294
Total budgetary resources	$ 509,665	$ 160,329	$ 173,797	$ 14,200,000	$ 2,293,720	$ 1,893,182	$ 6,000,448	$ 853,967	$ (463,595)	$ 1,758,995	$ 2,852	$ 27,383,360
Status of Budgetary Resources:												
New obligations and upward adjustments (total)	$ 394,949	$ 117,996	$ 173,499	$ 2,049,376	$ 2,248,470	$ 1,838,991	$ 4,598,872	$ 167,226	$ 11,974,633	$ 1,252,399	$ -	$ 24,816,411
Unobligated balance, end of year:												
Apportioned, unexpired accounts	114,134	42,333	298	12,150,624	45,250	54,191	1,401,576	686,741	-	506,596	2,816	15,004,559
Exempt from apportionment, unexpired accounts	-	-	-	-	-	-	-	-	(12,438,228)	-	-	(12,438,228)
Unapportioned, unexpired accounts	7	-	-	-	-	-	-	-	-	-	36	43
Unexpired unobligated balance, end of year	114,141	42,333	298	12,150,624	45,250	54,191	1,401,576	686,741	(12,438,228)	506,596	2,852	2,566,374
Expired unobligated balance, end of year	575	-	-	-	-	-	-	-	-	-	-	575
Unobligated balance, end of year (total)	114,716	42,333	298	12,150,624	45,250	54,191	1,401,576	686,741	(12,438,228)	506,596	2,852	2,566,949
Total status of budgetary resources	$ 509,665	$ 160,329	$ 173,797	$ 14,200,000	$ 2,293,720	$ 1,893,182	$ 6,000,448	$ 853,967	$ (463,595)	$ 1,758,995	$ 2,852	$ 27,383,360
Outlays, Net:												
Outlays, net (discretionary and mandatory)	$ (16,868)	$ (4,395)	$ 106,528	$ 1,496,528	$ 2,581,460	$ 7,058	$ 1,896,104	$ 126,554	$ 7,820,566	$ 1,222,095	$ (7)	$ 15,235,623
Distributed offsetting receipts (-)	(40,251)	-	-	-	-	-	-	-	-	-	-	(40,251)
Agency outlays, net (discretionary and mandatory)	$ (57,119)	$ (4,395)	$ 106,528	$ 1,496,528	$ 2,581,460	$ 7,058	$ 1,896,104	$ 126,554	$ 7,820,566	$ 1,222,095	$ (7)	$ 15,195,372

B. Land

As of September 30, 2023, the FCC owns fourteen real property sites totaling 2,104 acres of operational land. Operational land is land used for general or administrative purposes. The land is primarily used in support of the FCC's Public Safety and Homeland Security mission of developing and implementing policies and programs to strengthen public safety communications and interoperability, homeland security, national security, emergency management and preparedness, disaster management, and network reliability and resiliency. Specifically, the land is used for public safety and homeland security monitoring activities. In addition to the monitoring activities, two of the sites have field offices and/or a lab. Presently, none of the acreage is available for disposal or exchange.

Estimated Acreage by Predominant Use

	FY 2023 Operational	FY 2022 Operational
Beginning Acreage	2,104	2,104
Additions/(Subtractions)	-	-
Ending Acreage	2,104	2,104

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

See accompanying auditor's report.

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	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**

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) 2023 in compliance with Federal statutes 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 sixteen 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 - Legacy)
- Universal Service Fund High Cost Program (USF-HC - Modernized)
- 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)
- Connected Care Pilot Program
- Interstate Telecommunications Relay Services Fund (TRS)
- North American Numbering Plan (NANP)
- FCC Operating Expenses (FCC)
- TV Broadcaster Relocation Fund (TVBRF)
- Coronavirus Disease 2019 (COVID-19) Telehealth Program (CV19)
- Affordable Connectivity Program (ACP)
- Emergency Connectivity Fund (ECF)
- Secured & Trusted Communications Network Reimbursement Program (SCRP)
- Affordable Connectivity Program Outreach Grants

I. Actions Taken to Address Auditor Recovery Recommendations

USF-HC

The following are brief descriptions of the FCC and USAC's key efforts to prevent and reduce improper payments in the USF High Cost Program:

Improper Payment Testing Procedures: The FCC and USAC continue to work together to determine what procedures can be added or enhanced to ensure improper payment testing procedures adequately assess the risk associated with the USF High Cost Program. To assist in this initiative, USAC management will utilize the testing results from its Beneficiary and Contributor Audit Program (BCAP) audits to identify high-risk areas in the program. The resulting improper payment procedures will then have a focus on these high-risk areas and will complement USAC's other program integrity efforts.

Program Integrity Efforts: As part of its Program Integrity Efforts, USAC's High Cost Program team has taken the following program integrity corrective actions:

- Implemented an annual Connect American Fund (CAF) Broadband Loop Support (BLS) trend analysis. USAC's High Cost Program is conducting annual data validation (referred to as Trend Analysis) for CAF BLS, comparing projected and actual cost study data that determines carriers' support for this fund. High Cost contacts carriers that are outside the established threshold, requesting additional information and variance explanation.
- Implemented a process to recalculate High Cost Loop (HCL) support and CAF Intercarrier Compensation (ICC) support. USAC's High Cost Program is conducting annual data validation (referred to as Trend Analysis) of Part 36 data for HCL support, including manual calculation of support and outreach to carriers, as well as NECA to explain and substantiate variances and significant changes in year over year data summations. Please note that USAC neither calculates nor collects the cost study data (Part 36 data) required for HCL support calculation. NECA is tasked with collection of data and calculation of HCL fund based on FCC rules and requirements, refer to 54.1305, 54.1306, and 54.1307.
- USAC's High Cost Program reviews the annual TRP (Tariff Review Plan) data for CAF ICC carriers and validates data and support amounts with the FCC prior to issuing support. Additionally, the High Cost Program conducts a.) manual calculation of support of a sample of carriers to ensure accuracy of support calculations, b.) annual trend analysis and projection vs actual true up calculations that are reported by carriers. High Cost then reaches out to outliers (carriers with a variance of +/- 20%) to explain variance and provide any supporting documentation. High risk cases and/or non-responsive carriers are referred to USAC's Audit Assurance Division (AAD) for further investigation.
- In partnership with USAC's AAD, High Cost will continue to hold annual Circle of Life webinars to remind and educate carriers regarding Commission rules. The webinar will provide common errors and best practices suggested to avoid this finding. Recorded webinars will be uploaded to the USAC website.
- USAC's High Cost Program is in the process of enhancing PIA procedures with improved analytics and plans for testing of some of the common audit findings on a sample basis in the future.

Improper Payment Analysis: USAC management is performing a deep-dive analysis of its improper payments to more thoroughly understand their root causes and to identify corrective actions that will address the root causes. Through this analysis, USAC management is institutionalizing corrective actions as part of its program integrity efforts that will reduce future instances of improper payments.

<u>USF-S&L</u>

The following are brief descriptions of the FCC and USAC's key efforts to prevent and reduce improper payments in the USF Schools and Libraries (USF-S&L) or E-Rate Program:

Competitive Bidding and Document Retention: The USAC Schools and Libraries Program team uses data analytics to identify potential competitive bidding violations prior to issuing funding commitments. USAC's Schools and Libraries Program team runs this analysis after the application filing window closes and then conducts heightened scrutiny for the flagged applications. The team also leverages data analytics to improve competitive bidding training and enhance compliance by adding content such as the 28 day waiting period, the factors for assessing contracts, and document retention to the training materials. Additionally, the team has focused competitive bidding training for applicants and service providers to specifically address those aspects of competitive bidding which result in recurring findings and improper payments.

Invoicing Error: The Schools and Libraries Program Invoicing team is taking a strategic, multi-pronged approach to reducing the risk around invoicing errors through realizing enhancements, and applying risk-based strategies to procedure reviews and processes improvements. USAC's Schools and Libraries Invoicing team leverages open data sets and coding capabilities to improve the efficiency of eligibility validations. In addition, the Invoicing team implemented the "Pre-Payment Review" which reviews the payment data on a sample basis prior to the payment file distribution and enhanced invoice selection criteria to identify and proactively prevent any potential improper payments. Lastly, the School and Libraries Program Invoicing team has improved customer awareness and knowledge through targeted internal and external training, and emphasizing guidance on common audit findings and other high-risk areas. The School and Libraries program continues to add additional preventative controls to proactively identify and prevent the types of invoicing errors seen in PQA assessments, including more rapid implementation of changes to applicant/service provider policies and procedures to prevent errors going forward.

Lack of or Incomplete Documentation (Service Provider Lowest Corresponding Price): The Schools and Libraries Program Invoicing team is also taking steps to remind service providers about their obligations to comply with Lowest Corresponding Price (LCP) requirements on an annual basis. The Schools and Libraries Program team continues to enhance its existing LCP service provider training materials to include, but not be limited, to the following:

- Need for document retention including when acquisitions and mergers occur.
- Certification of LCP requirements (as part of an audit).

The following efforts described below are not related to a specific finding. The Schools and Libraries Program team has developed these efforts to address all non-compliance issues:

Program Integrity: The USAC Schools and Libraries Program team employs a heightened scrutiny review (HSR) to identify and perform additional review for applications that may be at risk for areas of non-compliance. The Schools and Libraries Program team has made enhancements to its HSR procedures to further reduce the risk of improper payments. Annually, the HSR team leverages data analytics on the current population and considers revisions to the selection criteria for the next year based, in part, on audit findings and program risk factors. Some of the revised selection criteria include: 1) charter and private schools, that are not a part of a public school district, 2) applicants with a significant increase in requests for funding dollars, and 3) the top four service providers with a significant increase from funding year to funding year.

Outreach: USAC continues to enhance its outreach approach, customizing specific directions to program participants based on their Payment Quality Assurance (PQA) exceptions. Outreach includes updates to the website training materials, and conducting webinar(s) focused on 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.

Improper Payment Analysis: USAC management is performing a deep-dive analysis of its improper payments to more thoroughly understand the root causes and to identify corrective actions to address the root causes. Through this analysis, USAC management is continuing to institutionalize corrective actions as part of its program integrity and audit response efforts that will reduce future instances of improper payments.

<u>USF-LL</u>

The following are brief descriptions of the FCC and USAC's key efforts to prevent and reduce improper payments in the USF Lifeline program:

Preventing Ineligible Subscribers: The FCC and USAC fully launched the National Verifier in all states and territories by the end of 2020. The National Verifier increased program integrity by applying a consistent eligibility standard for Lifeline program participants. The National Verifier utilizes a combination of automated and manual processes to verify Lifeline program eligibility. To confirm participation in a qualifying program, the National Verifier connects to multiple state and federal eligibility databases.

Eligibility – Inadequate Documentation: To further refine the verification process, USAC continues to work with federal agencies, states, and territories to implement additional automated connections to eligibility databases. Where a consumer's eligibility cannot be confirmed automatically, USAC manually reviews appropriate documentation, including whether documentation is sufficient and authentic, to confirm that a consumer is eligible to participate in the Lifeline program and is not receiving duplicative support. USAC and its manual review vendor have robust Quality Assurance processes and continuously update training materials and resources for manual reviews. The Lifeline Program will review the root cause of the errors identified in the assessments of enrollment of ineligible applicants and will perform updates to training and materials related to the review of eligibility documentation and provide individual coaching for reviewers.

Non-Usage Compliance: USAC conducts programmatic reviews to determine whether Eligible Telecommunications Carriers (ETCs) are in compliance with non-usage rules that prohibit impacted ETCs from claiming subscribers who did not use their Lifeline service in accordance with the Commission's rules. USAC's Audit and Assurance Division conducts audits of the carriers that are subject to the Commission's usage rules. These audits are designed to understand the carriers' processes and systems in place to track, validate and comply with valid usage per FCC rules. The results of the audits are used to identify areas of non-compliance, overpayment amounts and recommend recoverable funds.

The following efforts are not related to a specific finding. They were developed to address all non-compliance issues:

Program Integrity Reviews: USAC's Lifeline Program Integrity team conducts detailed analysis of Lifeline subscribership data to identify potential instances of non-compliance. Based on this analysis, the Lifeline Program Integrity team performs targeted and random program integrity reviews. The results of these reviews are used to address compliance gaps and enhance preventive controls with the goal of reducing improper payments.

Improper Payment Analysis: USAC management performs a deep-dive analysis of its improper payments to more thoroughly understand their root causes and to identify corrective actions that will address these root causes. Through this analysis, USAC management is adopting corrective actions as part of its program integrity efforts that will reduce future frequency of improper payments.

Improper Payment Testing Procedures: The FCC and USAC will work together to determine what procedures can be added or enhanced to better ensure that improper payment testing procedures are properly tailored to assess the risk associated with the USF Lifeline program.

Telecommunication Relay Service (TRS)

The only improper payment recorded in the TRS fund this year through its statistical sampling process was an underpayment that resulted from a manual input of the distribution document. Going forward, if the distribution document has any manual inputs, the Distribution Supervisor and the Director of Customer Success (two tier supervisory review) will review the changes made and the resulting calculations from the manual change will require the reviewers initials prior to the distribution document being uploaded to the

Distribution Authorization Queue (DAQ) for approval. The Distribution Supervisor will notify all DAQ signers of all the manual changes made to alert them for a closer review of all calculations.

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 15, 2022, OMB provided its annual inflation adjustment update to agencies through OMB Memorandum M-23-05, *Implementation of Penalty Inflation Adjustments for 2023*. On December 23, 2022, the FCC's Enforcement Bureau adopted and released an order, DA-22-1356A1, which adjusted the Commission's forfeiture penalties for inflation for 2023.

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	2023	Up to $4,430,255	Enforcement Bureau (EB)	Federal Register 88 No. 3 (January 5, 2023): 88 FR 783. https://www.govinfo.gov/app/details/FR-2023-01-05/2022-28493 https://www.fcc.gov/document/2023-annual-adjustment-civil-monetary-penalties-reflect-inflation
47 U.S.C. 202 (c)	Discrimination	1989	2023	$14,236 $712/day	EB	Same as above
47 U.S.C. 203 (e)	Schedules of Charges	1989	2023	$14,236 $712/day	EB	Same as above
47 U.S.C. 205 (b)	Commission Charges	1989	2023	$28,472	EB	Same as above
47 U.S.C. 214 (d)	Extension of lines	1989	2023	$2,847	EB	Same as above
47 U.S.C. 219 (b)	Annual Report	1989	2023	$2,847	EB	Same as above
47 U.S.C. 220 (d)	Failure to maintain records	1989	2023	$14,236	EB	Same as above
47 U.S.C. 223 (b)	Obscene/ harassing telephone calls	1983	2023	$147,529	EB	Same as above
47 U.S.C. 227 (e)	Telephone equipment restrictions	2010	2023	$13,625/violation $40,875/day for each day of continuing violation up to $1,362,567 for any single act or failure to act	EB	Same as above
47 U.S.C. 362 (a)	Radio on board ships – Forfeitures	1989	2023	$11,864	EB	Same as above
47 U.S.C. 362 (b)	Radio on board ships - Forfeitures	1989	2023	$2,374	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. 386 (a)	Radio on board ships - Forfeitures	1989	2023	$11,864	EB	Same as above
47 U.S.C. 386 (b)	Radio on board ships - Forfeitures	1989	2023	$2,374	EB	Same as above
47 U.S.C. 503 (b)(2)(A)	Penalty provisions	1989	2023	$59,316/violation or each day of a continuing violation up to $593,170 for any single act or failure to act	EB	Same as above
47 U.S.C. 503 (b)(2)(B)	Penalty provisions	1989	2023	$237,268/violation or each day of a continuing violation up to $2,372,677 for any single act or failure to act	EB	Same as above
47 U.S.C. 503 (b)(2)(C)	Penalty provisions	2006	2023	$479,945/violation or each day of a continuing violation up to $4,430,255 for any single act or failure to act	EB	Same as above
47 U.S.C. 503(b)(2)(D)	Penalty provisions	1989	2023	$23,727/violation or each day of a continuing violation up to $177,951 for any single act or failure to act	EB	Same as above
47 U.S.C. 503(b)(2)(F)	Penalty provisions	2010	2023	$136,258/violation or each day of a continuing violation up to $1,362,567 for any single act or failure to act	EB	Same as above
47 U.S.C. 507 (a)	Payment disclosure	1954	2023	$2,350	EB	Same as above
47 U.S.C. 507 (b)	Payment disclosure	1954	2023	$345	EB	Same as above
47 U.S.C. 511	Penalty provisions	2020	2023	$115,802/violation or each day of a continuing violation up to $2,316,034 for any single act or failure to act	EB	Same as above
47 U.S.C. 554(f)	Equal employment opportunity	1992	2023	$1,052	EB	Same as above
Sec. 6507(b)(4)	Do-Not-Call Number Disclosure	2012	2023	$127,602 violation per disclosure incident up to $1,276,024 for any single act or failure to act	EB	Same as above
Sec. 6507(b)(5)	Do-Not-Call Number Contact	2012	2023	$12,760 violation per contact call up to $127,602 for any single act or failure to act	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 13, 2023

TO: Chairwoman Jessica Rosenworcel
Commissioner Brendan Carr
Commissioner Geoffrey Starks
Commissioner Nathan Simington
Commissioner Anna Gomez

FROM: Acting Inspector General Sharon R. Diskin Sharon R. Diskin

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

Information Security

Starting in fiscal year (FY) 2022, the Federal Information Security Management Act (FISMA) Evaluation's reporting deadline changed from October 31st to July 31st. This necessitated that the Commission accelerate its responses to the FISMA evaluation for documentation and meetings. Also in FY 2022, Office of Management and Budget (OMB) made significant changes to the approach of FISMA oversight and metrics collection from prior years, and OMB expanded on those changes in FY 2023. These changes are intended to define a maturity baseline in certain high-impact capability areas. OMB established the concept of core metrics, which represent highly valuable controls that must be evaluated annually. The remaining controls OIGs are required to evaluate through FISMA metrics are evaluated on a two-year cycle, beginning in FY 2023.

For FY 2023, these challenges are still present and this year's OIG FISMA Evaluation of the FCC's information security program, once again, was assessed as ineffective and not in compliance with FISMA legislation, OMB memoranda, and other applicable guidance. The most significant area impacting FISMA compliance is the continued significant deficiency in the cybersecurity Identity and Access Management domain. The other two areas of significant deficiency requiring a focused effort are Risk Management and Information Security Continuous Monitoring. We encourage management to prioritize OIG recommendations in all these areas, to limit the risk of unauthorized access and to ensure consistent governance and compliance. The FCC's efforts to achieve ando sustain compliance in critical areas must be vigilant to address the evolving cyber threat landscape.

Further, the Commission's reliance on roughly 40 legacy systems at the FCC increases the risks of exposures to security threats as many legacy systems lack patch updates or supported technology and may not be in compliance with changing standards. Until the Commission has developed a focused approach to strengthening the controls in all of these areas, demonstrating compliance with FISMA legislation, OMB memoranda and other applicable guidance will continue to be a significant challenge moving forward into FY 2024.

Universal Service Fund Programs

The Telecommunications Act of 1996 created the framework for the Universal Service Fund (USF), consisting of support mechanisms for: 1) providing financial support to eligible telecommunications carriers that serve high-cost areas; 2) assisting schools and libraries to obtain telecommunications and internet services; 3) assisting low-income consumers to obtain affordable telephone service; and 4) assisting rural health care providers to gain access to telecommunications and internet services. Under the direction of the Commission, the Fund is administered by the Universal Service Administrative Company (USAC).

On August 15, 2022, the FCC issued its *Report on the Future of the Universal Service Fund* (Report) as required by Section 60104(c) of the Infrastructure Investment and Jobs Act (Infrastructure Act) [1], which outlines the FCC's options for improving its effectiveness in achieving the universal service goals for broadband.[2] While the report contains recommendations for modifications to the existing universal service programs in light of the Infrastructure Act, it affirmed that its universal service goals for broadband cannot be achieved without the support of existing USF programs.

Achieving the FCC's goals and objectives (*Strategic Goal 1: Pursue a "100 Percent" Broadband Policy* and *Strategic Objective 1.1: Pursue policies to help bring affordable, reliable, high-speed broadband to 100 percent of the population, including rural areas, and Tribal lands as well as for low-income Americans and students*) requires a significant investment of FCC resources, as well as effective USAC administration of USF programs. Establishing direction and policy, and ensuring that all USF program rules and regulations foster effective and efficient programs, are significant management challenges.

Universal Service Fund Contributions Reform

Eligible telecommunications carrier (ETCs) contributed approximately $7.4 billion to the USF fund in 2022. However, the current USF contributions system is built on regulatory constructs from decades ago.[3] In a recent report adopted by the FCC on the future of the USF, Commissioner Brendan Carr noted that "…the FCC's funding mechanism…is stuck in a death spiral. The USF

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[1] Infrastructure Investment and Jobs Act, 2021, Title V, Sec. 60502, P. L. No.117-58, 135 Stat. 1238 (2021)

[2] Report on the Future of the Universal Service Fund, FCC-22-67, issued August 15, 2022.

[3] Testimony of Carol Mattey, Principal of Mattey Consulting LLC, before the Subcommittee on Communications, Technology, Innovation and the Internet, of the Committee on Commerce, Science and Transportation, U.S. Senate, on "The Impact of Broadband Investments in Rural America," March 12, 2019.

program is funded through a mechanism that made sense back in the dial up and screeching modem days of the 1990s—back when you were far more likely to have a long-distance calling card in your wallet than an email address in your name."[4] The aforementioned Report describes the multi-faceted arguments from the industry to update the funding mechanism for the FCC's USF programs. The proposals include expanding the contributions base to include revenues from Broadband Internet Access Service (BIAS) as well as to include edge providers (streaming video providers, digital advertising firms, and cloud service companies). Another consideration is to fund the USF by Congressional appropriations. The report warns that the FCC's decision on this issue should ensure the sustainability of the fund and should not increase the financial burden of consumers.

Contribution reform is needed because, although the marketplace has shifted to new services and new technologies, businesses are not required to finance the USF based on revenues from these new sources. Only revenues from interstate and international telecommunications services and certain other telecommunications are subject to assessment. The telecommunications companies providing these services include wireline phone companies, wireless phone companies, paging service companies, and certain voice over Internet Protocol (VoIP) providers. Total assessable telecommunications revenues, which make up the USF contributions base, have steadily declined from $66 billion in 2012 to $38 billion in 2021.[5]

The FCC has sought public comment on alternative contributions methodologies multiple times. For example, in an April 2012 Notice the FCC sought comment on modernizing the contributions methodology, to include an assessment of revenues from broadband networks.[6] Years later, in June 2020, the FCC sought comments to refresh the record in the 2012 Contributions Reform Further Notice of Proposed Rulemaking. The 2020 Notice pertains to whether the Commission should exercise its permissive authority under Section 254(d) of the Telecommunications Act of 1996[7] to include in the contribution base revenues derived from the provision of "one-way" VoIP services.[8] Despite the Commission's efforts over the years to obtain and evaluate comments on this issue, an agreement has not yet been reached on the best way to increase contributions to the USF to ensure its sustainability. Per FCC officials, this issue will be addressed in accordance with the priorities on the Commission's agenda. Notably, in its August 2022 FCC report to Congress, the Commission provided suggested USF contribution reform. Bipartisan legislation, introduced in the U.S. Senate,

[4] Report on the Future of the Universal Service Fund, FCC-22-67, issued August 15, 2022. See comments from Commissioner Brendan Carr on page 62.

[5] Universal Service Monitoring Report; CC Docket No. 96-45; February 2023, For DATA Received Through September 2022, Prepared by Federal and State Staff for the Federal-State Joint Board on Universal Service; Table 1.5.

[6] Further Notice of Proposed Rulemaking, Universal Contribution Methodology—A National Broadband Plan for Our Future, FCC-12-46, April 2012.

[7] Title 47 CFR 254d-(d) Telecommunications carrier contribution. Every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service. The Commission may exempt a carrier or class of carriers from this requirement if the carrier's telecommunications activities are limited to such an extent that the level of such carrier's contribution to the preservation and advancement of universal service would be de minimis. Any other provider of interstate telecommunications may be required to contribute to the preservation and advancement of universal service if the public interest so requires.

[8] FCC Public Notice; DA 20-614; Released June 11, 2020; Pleading Cycles Established; Comments Sought to Refresh the Record in the 2012 Contribution Methodology Reform Proceeding with Regard to One-Way VOIP Service Providers; WC Docket No. 06-122; GN Docket No. 09-51.

would have directed the FCC to conduct a study into the feasibility of collecting USF contributions from internet edge providers.[9] Following a Senate subcommittee hearing held in May 2023, a bipartisan USF Working Group sought comments from stakeholders on a number of issues related to potential reform of the programs funded through universal service. These comments were due by August 25, 2023. At this point, it is unclear which direction Congress will take. Ultimately, resolving these matters and reforming USF contributions remains a significant management challenge.

USF High Cost Program

The USF High Cost program (HC) historically has provided billions of dollars annually, with a goal of ensuring that robust, affordable voice and broadband service, both fixed and mobile, are available to Americans throughout the nation. High Cost program has been transitioning its support to multi-purpose networks capable of fixed and mobile broadband and voice services in rural, insular, and other high cost areas, and phasing out support for voice-only networks. During this transition, the HC program was modernized into the Connect American Fund (CAF), where funding is more transparent; easier to administer; and does not present the inherent risks and impediments to preventing fraud, waste and abuse in the program, compared to the historical model used to distribute funding to rate-of-return carriers, which remains problematic.

The Commission must continue to ensure CAF orders are timely implemented and meet their purposes and goals. Under the comparatively simplified CAF distribution models, systematic monitoring and verification of the CAF programs have been necessary to ensure carriers have fulfilled their build-out obligations and service requirements to all required locations in their service areas, and provide service at speeds required under the Commission's rules. USAC developed an information system, the High Cost Universal Broadband (HUBB) portal, to assist USAC management in determining if carriers were meeting their obligation to provide high-speed internet to specific underserved locations, including meeting minimum performance standards and service speeds. The Commission must ensure USAC adequately monitors carrier commitments to ensure they fulfill their obligations under the CAF programs. Additionally, the CAF programs, as the Commission has recognized, will need to be modified to accommodate new broadband programs Congress authorized during the pandemic as well as any post-pandemic initiatives. And, as also recognized by the Commission, it must continue to ensure there is coordination between the Commission and other inter-governmental agencies, so the monies dedicated to broadband development are used effectively without any overlap in funding authorizations.[10]

Based on previous FCC OIG audits as well as Government Accountability Office (GAO) audits, the continued significant challenges in the High Cost Program are ensuring that the FCC and USAC are (1) implementing funding reforms specific to carriers, (2) managing fraud risks for the High Cost program in accordance with leading practices, (3) ensuring that program funds paid to ETCs do not replace or duplicate other funding sources, and (4) monitoring the ETCs' progress on a timely basis, to ensure that broadband build-out milestones are being met.

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[9] https://www.wicker.senate.gov/2023/3/wicker-luj-n-young-kelly-reintroduce-bill-to-explore-collecting-usf-contributions-from-big-tech

[10] Report on the Future of the Universal Service Fund, WC Docket No. 21-476, 2022 WL 3500217, para. 24 (2022)

USF Lifeline Program

The Lifeline Program is currently facing the following challenges:

- Program Integrity;
- Low participation rates;
- Intersecting benefits with the FCC's Affordable Connectivity Program (ACP); and
- Halted plans to phase out subsidies for voice-only services.

Program Integrity

The FCC and USAC must continue to devote significant resources to combat waste, fraud, and abuse in the Lifeline program. Significant reforms to the Lifeline program in 2012 and 2016, with implementation of more recent reforms recommended by this Office, have significantly reduced fraud in the program. Nevertheless, OIG concerns related to ETC monitoring and compliance with usage rules have proliferated over the last several years and continue. OIG maintains an active roster of investigations examining the conduct of multiple ETCs and their agents. The U.S. Department of Justice works with OIG to pursue culprits identified through its investigations pursuing criminal and civil sanctions against those already identified by OIG's investigations. The FCC must continue to ensure that adequate resources are dedicated to identifying new forms of fraud as the program evolves.

In response to the ongoing COVID-19 pandemic, starting in March 2020, the Wireline Competition Bureau (WCB) waived certain Lifeline program rules from April 2020 through April 30, 2023. The waived rules were related to recertification, reverification, general de-enrollment, subscriber usage, income documentation, documentation requirements for subscribers during several months of the pandemic, as well as guidance concerning USAC periodic reviews. The waivers arose from WCB's recognition that telemedicine, telework, and online learning were necessary social distancing measures and, therefore, increased access to affordable communications services for low-income consumers was an important objective.

Nonetheless, many of the waived rules were originally implemented to prevent waste and abuse in the program. All of the waivers have now been rescinded, but the Commission must ensure ETCs are again abiding by the rules in effect and that these waivers did not open the door for future abuse of USF Funds.

Moreover, as we noted last year, the FCC and USAC must continue to monitor National Verifier enrollment to identify ETCs and their agents who attempt to circumvent added program safeguards. Although USAC completed its implementation of the Representative Accountability Database (RAD), the FCC and USAC must ensure RAD fulfills its purpose by identifying and blocking agents who attempt fraudulent Lifeline and ACP subscriber enrollments. They must also be vigilant in identifying attempts by agents previously blocked-out of RAD and prevent them from enrolling subscribers by using other agents' identities. The first step in accomplishing this goal is to ensure that Lifeline and ACP providers register their enrollments representatives in RAD. In December 2021, OIG raised concerns that Lifeline and ACP providers were not doing so. Since then, we shared warning letters sent to several large ACP providers describing OIG's concern that those providers failed to register their enrollment representatives in RAD even though those providers regularly used enrollment representatives to enroll subscribers. OIG analyses continue to show many Lifeline and ACP providers which employ enrollment representatives, fail to register all their enrollment representatives. This problem has not been addressed by the Commission or USAC. After ensuring that providers register all their enrollment representatives, the FCC and USAC must ensure providers furnish enrollment agent identification information for all National Lifeline Accountability Database (NLAD) and National Verifier transactions. OIG finds that in many instances fraudulent enrollments are made by agents who fail to identify themselves in RAD when enrolling subscribers, and this requirement is not enforced by their employers. In investigation after investigation, targets regularly produce information to OIG concerning the payment of commissions to enrollment representatives for program enrollments or transfers despite having failed to report enrollment representative involvement in the NLAD transactions. See further discussion in ACP section, *infra*.

Additionally, FCC and USAC must continue to monitor whether the National Verifier meets its intended goals to reduce the risk of enrollment of ineligible subscribers and improve the customer application and enrollment experience. In January 2021, GAO published the results of its audit of the National Verifier.[11] In its report, GAO recommends that the FCC develop and implement a plan to educate eligible consumers about the Lifeline Program and National Verifier, develop performance measures to track the Verifier's progress in reaching its goals and ensure that the system's online application is accurate, clear, easy to understand and includes an option to provide feedback. As of September 2023, the majority of the recommendations had not been closed.

Low Participation Rates

Low participation in the Lifeline Program has been reported in audits by GAO and assessments and evaluations by industry experts for many years. In 2022, $2.5 billion was budgeted for the Lifeline Program. However, only $610 million, or 24.8%, was disbursed. Currently, the participation rate is only approximately 19% of the eligible population.[12]

A 2015 GAO report[13] recommended the FCC conduct a program evaluation to determine the extent to which the Lifeline Program is efficiently and effectively reaching its goals of ensuring the availability of telecommunications services for low-income Americans while minimizing the contribution burden on consumers and business. The resulting 2021 Lifeline Program Evaluation Report, prepared by Grant Thornton,[14] echoed GAO's conclusions regarding the lack of specific performance measures for the program. Grant Thornton also reported that the FCC had not established performance measures or tasked USAC, the programs administrator, with increasing participation or collecting certain performance data. Therefore, USAC's strategies and plans may not address these activities.

Also, the forementioned GAO report on the National Verifier noted consumers may lack an

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[11] GAO #21-235: FCC Has Implemented the Lifeline National Verifier but Should Improve Consumer Awareness and Experience; released January 28, 2021.

[12] Data pulled from USAC's website on August 24, 2023, https://www.usac.org/lifeline/resources/program-data.

[13] GAO #15-335: FCC Should Evaluate the Efficiency and Effectiveness of the Lifeline Program; released April 23, 2015.

[14] Lifeline Program 2020 Program Evaluation, performed by Grant Thornton Public Sector LLC, final issued February 5, 2021.

awareness of the Lifeline Program because the FCC's consumer education planning efforts did not always align with key practices to develop consistent and clear messages and did not always include researching target audiences.

The FCC and USAC must develop and implement a plan to address the low participation rate for the Lifeline Program.

Program Benefits Intersect with the Affordable Connectivity Program

In its 2016 Lifeline Order, the Commission made changes to the Lifeline Program to enable low-income consumers to obtain and use broadband. In response to the Infrastructure Act, the FCC launched the Affordable Connectivity Program on December 31, 2021, with final rules issued on January 21, 2022, with similar goals. The ACP is a long-term program designed to promote the availability of broadband service for low-income consumers. While there are some distinct differences between the two programs, including device subsidy allowances and service discount amounts, many commenters on the program rules suggested the two programs should be merged or that the programs should cover distinctly different services. Significantly, under current rules, the same activities (e.g. making an outbound call, sending a text message, or data usage) qualify as "usage" for both programs.

Currently, consumers can apply benefits from both programs to the same telecommunications service plan. OIG analyses show that 72% of households (or 4.3 million) receiving Lifeline benefits in August 2023 concurrently received ACP benefits. Nearly 50% of Lifeline households (or 2.9 million) received Lifeline and ACP service from the same provider. In March 2022, OIG issued an advisory after it discovered a number of ACP providers deceived households into enrolling into Lifeline when they applied for ACP benefits. Participating providers regularly seek to maximize the reimbursements they receive by enrolling households in both programs. The FCC should look for evidence that households benefit (or conversely, funds are wasted) when a household receives concurrent ACP and Lifeline support, particularly when both services are furnished by the same provider.

The previously mentioned Future of the USF Report recommends that the device subsidy allowance be reconsidered. The report also recommends that the FCC conduct surveys to better understand household broadband needs, household awareness of the Lifeline Program, and their interaction with providers. The Commission must ensure that it continues to consider how best to structure, maximize and administer the benefits of the Lifeline Program and ACP.

Phase Down Voice-Only Service Subsidy

On July 1, 2022, the Bureau issued an Order extending for an additional year, the waiver pausing the phase-down of support for voice-only services in the Lifeline Program.[15] Although the WCB's *Report on the State of the Lifeline Marketplace*, indicates that only about 8% of Lifeline subscribers receive voice-only services,[16] some argue that this minority of consumers is still significant, as they

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[15] FCC Order, DA 23-589, Lifeline and Link Up Reform Modernization – Telecommunications Carriers Eligible for Universal Service Support, Connect America Fund.

[16] Report on the State of the Lifeline Market place, June 2021, Prepared by WCB, pages 7-8, Figure 2, "Figure 2 shows that for the May 2021data month approximately 8% of Lifeline subscribers participate in a voice-only offering."

rely on traditional phone service for reliable access to emergency services like 911, for work, to receive healthcare and customer support, and to connect with friends and family. Additionally, data is lacking on the options for affordable service that will be available to low-income consumers if voice-only support is eliminated. The FCC must ensure it resolves this matter in a way that meets the needs of the low-income community.

USF – Schools and Libraries (E-rate) Program

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 program supported purchases; and 3) ensure the application process is fast, simple, and efficient. The orders established a performance management system to help evaluate the effectiveness of the modernization orders and identify program improvements. In March 2023, the E-Rate program funding cap for funding year 2023 was set at $4.768 billion. The new cap represents a 7.0% inflation-adjusted increase in the $4.456 billion cap from funding year 2022.

In addition to challenges associated with delivering effective E-rate program services remotely, FCC and USAC management must ensure adequate program controls to detect and deter inherent program risks, as well as risks identified by prior OIG and USAC audits and OIG investigations, including those that transcend the pandemic:

- Missing or inadequate documentation to demonstrate compliance with FCC rules;
- Invoicing USAC for ineligible products/services;
- Untimely payment to service provider;
- Insufficient internet safety policy;
- Product and/or services received by ineligible entity; and
- Service Provider billing inaccuracies.

Following-up on suggestions by an internal USAC risk assessment and a GAO review, OIG recommended a process by which USAC would collect and release competitive bidding documents and standardize bid responses from service providers to assist applicants in reviewing and selecting the most effective bid. The Commission has sought comments on this recommendation. While the majority of comments have been negative, the Antitrust Division of the U.S. Department of Justice provided a comment in support of OIG's recommendation. The negative response to OIG's recommendation might be due to entrenched interests in preserving the status quo by consultants who extract a significant amount of money from applicants for providing competitive bid collection and review from applicants. Following the closure of the comment and reply periods in May 2022, *ex parte* meetings continued with Commissioners and the Chairwoman through at least May 2023. Despite the interest in this matter, the Commission has taken no action on this issue. Resolving this issue in a manner that best protects program integrity is a management challenge.

USF Rural Health Care Program

To address various concerns in the Rural Health Care program (RHC), the Commission adopted the Report and Order, *Promoting Telehealth in Rural America*, WCB Docket No. 17-310. [17] The Report and Order aimed to improve the RHC program competitive bidding process by adding a "fair and open" standard. 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 forms and prohibiting a service provider who has submitted a bid from evaluating bids or choosing a winning bidder.

USAC began implementing these rules in 2021 and OIG has requested updates on that process. OIG is aware, however, that certain obstacles to full implementation of the revised rules have arisen and implementation has been delayed. Nevertheless, effective implementation of these newer rules by the FCC and USAC, diligent agency enforcement of both the newer rules and the existing rules, as well as general oversight of the Program, remain a significant management challenge. The FCC's challenge is to continually use innovations to create ways to support rural hospitals and healthcare providers during the pandemic without creating gaps in controls that increase the risks for conflicts of interests, fraud, and abuse.

Pandemic and Post-Pandemic Relief Funds

Affordable Connectivity Program

The Emergency Broadband Benefit Program (EBBP) was established, pursuant to the Consolidated Appropriations Act of 2021. Congress allocated $3.2 billion to support discounted broadband service to low-income households, including those experiencing COVID-19 related economic disruptions. On November 15, 2021, the Infrastructure Act transformed the EBBP into a longer-term broadband affordability program, the ACP, and appropriated an additional $14.2 billion of support.

In the Infrastructure Act, Congress reduced the monthly discount available to non-tribal households from $50 to $30 in the newly-renamed ACP. ACP funds may also be used to buy related equipment, such as computers and tablets. The ACP uses the Lifeline program's infrastructure, including the National Verifier, NLAD, and the Lifeline Claims Systems, for subscriber eligibility, enrollment and service provider reimbursement. Most ACP rules became effective on April 15, 2022.

The FCC must continue to devote significant resources to monitor the ACP over the long-term to ensure that program service providers comply with program requirements. In its 2021 and 2022 Management and Performance Challenges memo to the Commission, OIG outlined its assessment of the most serious management and performance challenges posed by the EBBP and ACP. Over the last year, OIG has learned more about those previously-identified challenges and identified a number of additional risks and challenges that FCC management must address as it administers the ACP.

Ensuring Subscriber Eligibility and Combatting Enrollment Fraud: As with the Lifeline program, one of the primary challenges the Commission faces is ensuring the eligibility of subscribers enrolled in the ACP. While the National Verifier has mitigated many risks associated with enrollment fraud, many challenges persist.

[17] The RHC program funding cap is $682.3 million for funding year 2023, which includes a 7.0% inflation-adjusted increase from the $637.7 million cap in funding year 2022.

As discussed in our 2022 memo, OIG issued three advisories concerning enrollment-related misconduct within the first sixteen months of program operations.[18] We also discussed the evidence we presented to the Commission and USAC that showed providers and their agents submitted fabricated eligibility proofs to make improper program enrollments. Reports from USAC indicate that it continues to identify numerous examples of fabricated documents submitted as part of applications that cannot be confirmed using the National Verifier database connections. In the past year, we also learned of more program enrollments completed by enrollment representatives using stolen personal identifiable information (PII) or PII gathered by enrollment representatives using deceptive marketing practices. This represents an ongoing threat to program integrity.

Unauthorized and Abusive Transfers: On March 29, 2023, OIG made a presentation to WCB and the Enforcement Bureau regarding unauthorized and abusive transfers of subscribers' ACP service benefits by providers. OIG undertook its analysis after USAC and the Commission received thousands of complaints from subscribers alleging they were enrolled or had their service transferred by providers without their consent. As we presented, our analysis showed many subscribers were transferred dozens of times between providers who abused the transfer exception process. Our analysis also demonstrated provider abuse of the transfer exception process was increasing. These unauthorized transfers result in monetary losses to the ACP as well as the loss of ACP benefits to subscribers.

In 2022, OIG urged the Commission to confirm that program administrators leverage all data collected by the National Verifier and NLAD to ensure subscriber eligibility. As we noted regarding our detection and investigation of duplicate Benefit Qualifying Person (BQP) fraud in the 2022 memo, OIG's assessment of transfer exception abuse did not require significant investigation. Only a review of the complaints and simple data queries was required to identify subscribers whose service was transferred an excessive number of times. While providers and their agents are clearly at fault for furnishing fraudulent information to the Verifier and NLAD, program administrators could have used readily available data to detect and address this abusive conduct.

Our inquiry also detected certain anomalies regarding the use of transfer exception codes. OIG observed that NLAD data reflects the use of transfer exceptions codes for non-transfer related transactions. Specifically, tens of thousands of enrollment, de-enrollment, and other non-transfer-related transactions were associated with a transfer exception code. Transfer exception codes should be used only in connection with transfer transactions. As discussed below, our office identified other data integrity/quality concerns in last year's memo.

Missing and Bogus Enrollment Data: Relatedly, the Commission continues to face a significant challenge addressing several other data integrity issues detected by OIG. As mentioned in last year's memo, OIG continues to find that providers have failed to furnish the NLAD with information required by program rules. For example, 47 CFR 54.1806(d)(4) requires providers to transmit to the NLAD certain information about each subscriber including full name, residential address, date of

[18] On November 22, 2021, OIG issued an advisory regarding providers and their agents who took advantage of the less stringent enrollment requirements for households that participate in the CEP School Lunch Program to create tens of thousands of fraudulent enrollments. On March 11, 2022, OIG issued an advisory to alert consumers and the public that certain providers were impermissibly tying enrollment in the ACP and Lifeline program. Finally, on September 8,2022, OIG issued an advisory regarding providers and their agents who enrolled many households into the ACP based on the eligibility of a single BQP. Some BQPs were used to qualify hundreds of ACP households.

birth, and the telephone number associated with ACP service. OIG found the phone number information missing for about 24% of all past and present subscribers in the ACP program (5.4 million out of 22 million). Although it is our understanding that USAC requires providers to provide either a phone number or an email address, there are still almost 1 million past and present subscribers with neither a phone number nor an email address populated in NLAD. Also, as discussed above, we pointed out for the first time in our December 10, 2021, memo to WCB, many providers have not provided any information regarding sales agent involvement in subscriber verification and enrollment activity. This remains true in 2023. Among the top 40 ACP providers, more than half are failing to provide agent RepIDs most of the time. Specifically, 21 of the top 40 providers have reported agent RepIDs with fewer than half of their enrollments (including six providers that have never reported RepIDs for any enrollments). Provider failure to share such information violates program rules, negatively impacts program integrity and makes the missions of OIG and the Enforcement Bureau more challenging.

In addition to missing data, OIG has discovered a significant amount of bogus enrollment information in the National Verifier and NLAD databases. In addition to the information discussed in last year's memo, OIG has found that at least 6.2% of the 20+ million ACP subscribers have suspect email addresses, including 4.2% that are clearly fake or invalid, and 2% of email addresses that are shared among at least five subscribers. Fake email addresses often follow distinctive patterns. Other examples of bogus enrollment information include the single-family addresses used to enroll dozens of ACP households. Data authenticity and integrity are important and pressing challenges for the Commission to consider as it administers the ACP.

National Verifier Manual Review Process: A significant number of ACP subscriber applications require manual review to confirm subscriber eligibility. OIG recognizes the profound challenges posed by conducting a manual review of subscriber eligibility proofs and other enrollment-related documents at this scale. We first reported issues with manual review process during our EBBP audit in 2022. The audit found that improper manual verification review resulted in EBBP benefit being incorrectly extended to subscribers who did not meet the program household eligibility requirements.

To address the weaknesses, the report recommended that the FCC and USAC work together to increase the scrutiny of the manual verification process using a multilevel review process. In addition to the audit recommendations, OIG made a number of preliminary recommendations to improve the efficacy of the manual review process. We note that USAC continues to make significant improvements to the manual review process, by adding the recommended layers of quality control reviews. Our ongoing ACP audit has shown that additional improvements are needed. The manual review process continues to pose unique challenges. As subscriber eligibility proof and other enrollment-related documents increase, so does the importance of a strong manual review process. In addition to the audit recommendations, this year we made recommendations to improve USAC's manual review process including recommendations to make the application process less vulnerable to fraud, to leverage technology to assist in the detection and confirmation of fabricated applications documents, and to assist OIG and other enforcement entities investigate fraud once detected. The Commission and USAC should remain vigilant against provider and sales agents' attempts to defraud the program by exploiting manual review process vulnerabilities.

Alternative Verification Process: The Consolidated Appropriations Act allowed a participating provider to "rely upon an alternative verification process of the participating provider," to determine household eligibility and enroll households in the EBB program, subject to certain conditions. Providers continue to utilize alternative verification processes (AVPs) to verify the eligibility of ACP subscribers. In our 2022 memo, OIG raised concerns about the Commission's lack of visibility into the day-to-day workings of providers' AVPs. We expressed concern about complaints received by the Commission that indicated ineligible households had received offers for "pre-qualified" ACP supported service from providers who utilize AVPs. The prequalified households complained they were not the intended beneficiaries of the program and should not receive subsidized service. We exhorted the Commission to learn more about how AVP might lead to waste and abuse.

On May 17, 2023, the Commission announced an investigation into inconsistencies and irregularities in enrollment verification, and directed three major providers that use an AVP to confirm the enrollment of their AVP-qualified subscribers using the National Verifier. In addition, the Commission requested that the three providers provide an updated application explaining 1) the providers' continued need for an alternative verification process; and 2) why their AVPs are "sufficient to avoid waste, fraud, and abuse."

Prior to the Commission's May 17th announcement, OIG sent a warning letter to one of the three major ACP providers later identified by the Commission. That major ACP provider uses an AVP to qualify approximately 80% of its millions of ACP subscribers. After the Commission's announcement, we shared our concerns with the agency. Specifically, we raised concerns that the provider used its AVP to make improper enrollments, including the enrollment of businesses, subscribers who received more than one ACP benefit, and bogus names. We also expressed concern that the provider contributed to program waste by using its AVP to prequalify households that would not otherwise be eligible for program support. Given the evidence presented to the agency by the OIG, the Commission must continue to learn more about how provider use of AVPs may lead to fraud, waste, and abuse in this program.

Provider Compliance with ACP Usage and De-enrollment Rules: The Commission implemented the ACP subscriber usage and related de-enrollment rules as a safeguard against fraud, waste and abuse and to adopt a process that ensures taxpayer money is spent only for eligible subscribers that are actually using the supported service.[19] Whenever a provider does not assess and collect a monthly fee to a subscriber, it is required to (i) track that subscriber's usage on a rolling thirty-day basis, (ii) send a notice if the subscriber has not used the service in a thirty-day period warning that their service will be terminated and (iii) terminate that subscriber's service if it remains unused at the forty-fifth day.[20] Each provider can claim any subscriber on the first of the month if that subscriber used their service in the prior thirty days, or cured their non-usage prior to the de-enrollment deadline.[21] The usage requirement is so important that the Commission requires that participating providers certify that their subscribers have used the service prior to making any ACP claim.[22]

[19] Report and Order and Proposed Rulemaking adopting final rules for the Affordable Connectivity Program (January 21, 2022) ("2022 ACP Order"), para. 75; 2012 Lifeline Reform Order, para. 257.

[20] 2022 ACP Order, footnote 223 and 47 C.F.R. 54.1809(c). The de-enrollment process became mandatory for most providers as of June 15, 2022. It became mandatory for providers that served fewer than 100,000 broadband subscribers and that also served some of those subscribers on Tribal lands as of September 16, 2022. Prior to those dates, the usage rule in EBB and ACP only required that a subscriber use the service a single time in a month in order to be claimed, 47 C.F.R. 54.1608(c).

[21] See 47 C.F.R. 54.1808(c).

[22] See 47 C.F.R. 54.1808(c)(2).

In September 2023, OIG issued an advisory to describe its growing concern that data and other evidence strongly suggest dozens of participating mobile broadband providers are not complying with ACP usage and de-enrollment requirements. OIG's concern originated from a recent OIG investigation of an ACP provider that improperly claimed $44.5 million in program funds on behalf of subscribers who were not using their ACP service. Subsequent OIG work further deepened this concern.

De-enrollments for non-usage typically comprise about half of de-enrollments by large mobile broadband ACP providers. However, OIG analyses showed that dozens of participating mobile broadband providers de-enrolled few, if any, ACP subscribers for non-usage and claimed reimbursement for all or nearly all their ACP subscribers. In some instances, these suspect providers de-enrolled less than one percent of the subscribers that many similarly-sized ACP providers de-enrolled for non-usage. Extensive experience with the Lifeline program and ACP and comparisons with other ACP providers suggest these suspect providers are likely noncompliant with ACP usage and related de-enrollment rules as well as other program rules. The advisory identified provider noncompliance with program usage rules as a significant threat to ACP program integrity and OIG encouraged providers to examine their usage monitoring procedures to ensure rule compliance.

OIG also encouraged the Commission to adopt appropriate measures to ensure the agency can confirm that low-income households are actually using ACP service. Throughout the implementation of the EBBP and the ACP, OIG repeatedly recommended that the Commission require providers to regularly report information to demonstrate that subscribers are using the subsidized broadband service. The Commission declined to adopt such a requirement and cited subscriber privacy concerns. Given such widespread concern regarding provider compliance, the Commission should re-examine provider accountability in avoiding program waste.

Enhanced ACP High-Cost Area Benefit: On August 3, 2023, the FCC adopted an order to provide an up-to-$75 monthly broadband benefit for subscribers living in qualifying high-cost areas through the ACP, as directed by the Infrastructure Act. The Infrastructure Act specified that the $75 monthly benefit would support providers that can demonstrate that the standard $30 monthly benefit would cause them to experience "particularized economic hardship" such that they would be unable to maintain part or all of their broadband network in a high-cost area. Congress separately directed the National Telecommunications and Information Administration (NTIA), in consultation with the Commission, to identify the high-cost areas eligible for the enhanced ACP high-cost area benefit.

During the rulemaking process, OIG expressed a number of concerns regarding the proposed program. Our recommendations are informed particularly by our experience with the legacy High Cost program and the difficulties we have observed in conducting adequate oversight of cost-of-service companies, including the Department of Justice's reluctance to bring civil and criminal actions against cost-of service companies given the accounting intricacies and complexities of the FCC's rules governing the program.

OIG recommended that the FCC issue further guidance on the income statements required to show particularized economic hardship in order to qualify for the enhanced benefit. We also recommended that the Commission develop rules to prevent cost-shifting among providers seeking to qualify for the enhanced benefit. Finally, we recommended the Commission develop guidance regarding the provider application approval process and allow OIG an opportunity to review it prior to its adoption. OIG is very concerned that the enhanced ACP high-cost benefit may incentivize providers to engage in abusive and "creative accounting" in order to qualify. While the Commission adopted many of OIG's recommendations, the Commission must remain vigilant against further vulnerabilities to fraud, waste, and abuse.

OIG remains concerned that the Commission failed to issue rules and standards to govern how much of the up-to-$75 monthly benefit a provider may claim. OIG is concerned that this deficiency may result in a potentially massive waste of government resources. The purpose of the enhanced subsidy is to enable providers in high-cost areas to maintain their broadband networks—not to provide an unwarranted windfall. For example, if facilities-based provider A operates at a loss in a high-cost area when it receives the "standard" $30 per month ACP subsidy for eligible households but would break even if it receives $50 per month for its ACP-eligible households, is it permissible for facilities-based provider A to seek the full $75 subsidy? Congress was explicit that the enhanced high-cost subsidy for the ACP is "up to" $75, not $75; [23] Congress clearly intended that some providers would receive less than the full subsidy amount.

The Commission has not addressed this situation or outlined any safeguards. OIG is skeptical that any qualifying facilities-based provider in a high-cost area will voluntarily seek less than $75 per month. Depending on the size of the provider's operating loss, this may result in a large windfall (and waste) of government monies. We strongly urge the Commission to address this fundamental vulnerability.

ACP Program implementation challenges identified during FY 2023 ACP audit: In FY 2023, OIG engaged a contractor to audit the ACP program in its first year of implementation as required by the Infrastructure Act. As of October 2023, the audit is in the reporting phase and we have communicated all of the ACP audit findings to management. The audit identified a number of ACP program implementation challenges concerning lack of defined performance targets and key milestones for assessing the FCC's effectiveness in meeting its performance goals, delayed outreach efforts and lack of focus on households in high poverty areas or areas with limited broadband usage, the inability to make accurate applicant eligibility determinations, issues related to unsubstantiated claims, and failure to publish consumer complaint reports during the audit period. Specifically, our contractor found that:

- Although the FCC developed its ACP performance goals for the ACP, it did not establish specific performance targets to evaluate its performance against its goals or how well the FCC is progressing towards achieving its performance goals over time.

- Although the FCC established and funded its grant program in January 2022, most grant awards were not accepted until May or June 2023 so grantee outreach efforts did not start until nearly half of ACP funds were expended. Additionally, the FCC's outreach efforts were limited and could have been more effective by conducting research at the time of program implementation that would have given the FCC a greater insight on how to structure its enrollment efforts for high poverty areas and for areas where broadband usage is not

[23] Subsection (a)(7) of Section 904 of Division N of the Consolidated Appropriations Act, 2021 (Public Law 116–260), as amended by Subsection(a)(3) of Section 60502 of Division F of the Infrastructure Act.

widespread. As a result, households in high poverty areas with limited broadband usage were not specifically targeted.

- Additional improvements are needed in the quality assurance work for manual verification reviews for household eligibility determination performed by a business process outsourcing company hired by FCC/USAC. The weaknesses in the manual verification review process was a repeat issue from the OIG 2021 EBBP audit report, [24] in which our contractor found that FCC controls were not effective in preventing incorrect household eligibility determinations during manual review.

- 2.46% of claims reviewed could not be substantiated, including five sample claims from two participating providers who did not respond or submit any audit documentation after repeated requests for audit documentation.

- The FCC failed to publish consumer complaint reports required by Title 47 U.S.C. § 1752 (b) (9) (D). While the FCC had an efficient process for tagging ACP-related complaints, the FCC lacked a formal process for aggregating and including participating provider compliance with the ACP in a public report. Subsequent to the completion of our contractor's audit field work on August 1, 2023, the FCC published its consumer complaint report in mid-August 2023. However, this report has not been subject to an audit review. Until the compliance report is validated for compliance with the statute, we continue to consider this matter a significant challenge.

In January 2023, the GAO released its audit report, GAO-23-105399,[25] *FCC Could Improve Performance Goals and Measures, Consumer Outreach, and Fraud Risk Management*. In its report, GAO noted that the FCC established some performance goals and measures; however, the goals and measures were lacking key attributes of effective performance management. In addition, it noted although the FCC has taken steps to manage fraud risks in the program, (1) the FCC's efforts do not fully align with selected leading practices in GAO's Fraud Risk Framework, and (2) the FCC has not developed processes to monitor certain anti-fraud controls. GAO identified weaknesses in these controls, including potential duplicate subscribers, subscribers allegedly receiving fixed broadband at PO Boxes and commercial mailboxes, and subscribers with broadband providers' retail locations as their primary or mailing addresses.

The GAO report included nine recommendations with which the FCC agreed, and established a Correction Action Plan to address each recommendation. As of September 30, 2023, many of the audit recommendations related to ACP performance goals and measures and fraud risk management are still under remediation. The FCC's continued efforts in resolving GAO's ACP open recommendations remain a significant challenge in ensuring the FCC is effective in preventing and detecting fraud in the ACP program.

[24] https://www.fcc.gov/inspector-general/reports/audit

[25] https://www.gao.gov/assets/gao-23-105399.pdf

Emergency Connectivity Fund

The American Rescue Plan Act of 2021 appropriated $7.6 billion to establish the Emergency Connectivity Fund (ECF), of which $1 million was to go to OIG to oversee the program. The ECF program was to generally follow the USF's Schools and Libraries program model but offer 100% reimbursement for items not eligible for funding under that program, such as computers and internet hotspots. The Commission has conducted three rounds of applications for funding from the program, and as of mid-August 2023, the Commission has committed over $6.9 billion from the program to fund 13 million connected devices and 8 million broadband connections at 11,100 schools, 1,500 libraries, and 120 consortia.

Over the past 10 months, OIG obtained underlying ECF data by collecting documentation from schools and libraries and conducting site visits to determine compliance with program rules, to better understand how the program operates for applicants and to identify potential issues with the program. To assist in this process, OIG contracted for staffing to assist with site visits. OIG expects to continue site visits utilizing these contracted staff through the fall of 2023.

OIG's site visits have identified problems with ECF recipient's program-mandated tracking of devices purchased with ECF funding. Additionally, OIG and its contracted staff have observed unused equipment, missing equipment, excessive profit margins, overbilling for reimbursement, and in some instances, schools have not provided any documentation in response to OIG's requests. OIG has referred some of these matters to WCB for administrative resolution and is in the process of referring additional issues to WCB for resolution.

Oversight of this immense program, with which the agency still has little experience, is a significant management challenge. Due to the end of the pandemic, the ECF program will sunset on June 20, 2024 and ECF program support will only be available for purchases of eligible equipment and services made by June 30, 2024.

Telecommunications Relay Service

The Telecommunications Relay Service (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. Rolka Loube, LLC, 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 2022, the TRS Fund accounted for approximately $1,267 million in new available funds on the Commission's Combined Statement of Budgetary Resources. The Administrator projects a net fund cash requirement for fund year 2023-2024 of $1,230,641,592. The net fund cash requirement is the sum of service requirements, administrative overhead, and a budgetary reserve minus the projected fund balance as of June 30, 2023.

As reported last year, TRS program administrators finalized its audits of the TRS providers and their compliance with the Video Relay Service (VRS) User Registration Database (URD) filing instructions. The OIG learned the audits uncovered serious problems that revealed providers were not in compliance with the registration requirements. Specifically, providers had inadequate controls to verify documents collected from users met the identity requirements or filing instructions for URD registration.

The audits recommend providers implement quality control processes to verify that the documents collected to support the user registration are compliant with URD filing instructions and regulatory requirements. The FCC should devote resources to ensure recommended controls are implemented and hold providers accountable for failing to comply with program rules.

The OIG also continues to monitor other TRS programs and the increased program support needed across the country's states and territories. The demand for program services and equipment threatens to exceed the amount of program funding available.

This past year, the OIG learned about vulnerabilities in the National Deaf-Blind Equipment Distribution Program (NDBEDP). The 2010 revision to the Americans with Disabilities Act created the NDBEDP, also known as iCanConnect, to provide equipment needed to make telecommunications, advanced communications, and the internet accessible to low-income individuals who have both significant vision loss and significant hearing loss. See NDBEDP 47 CFR § 64.6201-64.6219. Under the program, fifty-six distributors (one for each state and territory) purchase and distribute telecom equipment to qualifying individuals who are both legally deaf and blind in those jurisdictions. The program costs are capped at $10 million per year and funded by the TRS fund.

As directed by the *NDBEDP Permanent Program Order*, Consumer and Governmental Affairs Bureau (CGB) set aside $100,000 towards the development of a centralized database. The database is a repository which requires certified entities to use and submit information about their NDBEDP-related activities for reporting purposes. In addition, the database may be used for the generation of reimbursement claims.[26] According to the *NDBEDP Permanent Program Order*, the purpose of the database is to enable the CGB, OMD, the NDBEDP Administrator, and the TRS Fund Administrator to oversee the program more effectively and efficiently; analyze the performance of certified programs; detect patterns indicating potential fraud, waste, or abuse; and provide aggregate national program statistics to inform the Commission's future policy deliberations for the NDBEDP.[27] Fulfilling these obligations will present a management challenge.

Bridging the Digital Divide – Broadband Mapping

In March 2020, the Broadband Deployment Accuracy and Technological Availability Act (Broadband DATA Act) was enacted.[28] The Broadband DATA Act required the Commission to, among other things, collect location-specific information about broadband services available in the U.S., share that information via a public-facing map, and implement a public challenges process.

[26] See NDBEDP Permanent Program Order, 31 FCC Rcd at 9242, 9250-51, paras. 149, 169 (authorizing CGB to allocate an amount necessary from the $10 million available annually from the TRS Fund for the NDBEDP for the development and maintenance of the centralized database).

[27] Id.

[28] Public Law No. 116-130, Broadband Deployment Accuracy and Technological Availability Act or the Broadband DATA Act, March 23, 2020, codified at 47 U.S.C. §§ 641 et seq.

Through a series of rulemakings implementing the Broadband DATA Act, the Commission has set up the Broadband Data Collection (BDC) system by which fixed and mobile broadband providers semiannually report geographically-specific information about broadband deployments for each serviceable residential or business location (i.e., each building) within the provider's service area.[29]

The Commission then gathers the information and processes it into the National Broadband Map (https://broadbandmap.fcc.gov/home). The Commission does this by first creating a common dataset known as the "Fabric," the database of all buildings in the country where broadband networks can be deployed, and then overlaying the gathered data showing where the providers' services are available. The BDC replaced the Commission's prior broadband mapping system that relied on less granular information from providers' FCC Form 477 filings about service availability reported at the Census Block level—a unit that can range in size from a single city block at the smallest to thousands of square miles at the largest. In January 2021, the Commission adopted additional rules fleshing out its implementation of the Broadband DATA Act, including a requirement that providers must submit a certification from a qualified engineer attesting to the accuracy of provider's data submission, and establishing a challenge process by which consumers and others can challenge the accuracy of coverage maps and other data.

In 2021, the Infrastructure Act allocated $42.45 billion for the Broadband Equity, Access, and Deployment (BEAD) program, funding broadband service deployment to underserved locations. The statute directs NTIA to determine which areas are underserved using the data the Commission collects and compiles into the National Broadband Map pursuant to the Broadband DATA Act.

In November 2022, the Commission published the first version of the Broadband Map using availability data based on the BDC filings submitted by providers between June and September 2022. The Fixed Broadband Map shows the fiber, cable, DSL, satellite, or fixed wireless internet services available at each home or small business on the map. The Mobile Broadband Map shows 3G, 4G, and 5G coverage of each mobile provider in the area displayed. At the same time it released the first map, the Commission also opened the process by which individuals and bulk filers (e.g., government agencies) could submit challenges to providers' availability data.

As of May 2023, the Commission's Broadband Task Force had received availability challenges for more than 4 million locations, of which approximately 2.19 million (54%) were resolved through provider concessions (i.e., agreeing to withdraw availability or speed assertions for a location) and 0.9 million (23%) were resolved by challengers withdrawing their challenges. Of those that remained disputed as of late June 2023, the Task Force had adjudicated approximately 352,000 and had another 642,000 in various pre-adjudication statuses. According to the Task Force, it was their standard procedure to require providers to update the Broadband Map upon resolution of each availability challenge.

In May 2023, the Commission published the second version of the Broadband Map, based on the BDC filings submitted by providers between December 2022 and March 2023.

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[29] *Establishing the Digital Opportunity Data Collection; Modernizing the FCC Form 477 Data Program*, WC Docket Nos. 19-195, 11-10, Second Report and Order and Third Further Notice of Proposed Rulemaking, 35 FCC Rcd 7460 (2020) (Second Order and Third Further Notice); *Establishing the Digital Opportunity Data Collection; Modernizing the FCC Form 477 Data Program*, WC Docket Nos. 19-195, 11-10, Third Report and Order (2021) (Third Report and Order).

In June 2023, NTIA announced the BEAD funding allocations for each state and territory that will be used to deploy or upgrade broadband networks.[30]

It is clear there are a variety of management challenges pertaining to the broadband mapping process. The first deals with the Fabric level. The Commission's vendor developed the Fabric through a process relying on geolocation data extracted from satellite imagery in conjunction with aggregated property tax and land records. Some of that satellite imagery appears to be from about 2017 or 2018, meaning it's now five to six years old. It is unclear whether the tax and land records were more current. Thus, the map may exclude buildings newly constructed in the past five to six years that did not replace a pre-existing structure. It may also include locations that have been demolished and not replaced during that time period. Some errors may have been corrected by the Commission's Fabric challenge process, under which providers, state agencies, and members of the public can submit corrections to incorrectly excluded, included, or misclassified locations.

Second, there are management challenges pertaining to the provider-reported data level. Did providers accurately report all of their broadband serviceable locations? News articles published in 2022 and 2023 have reported that some providers may have submitted false broadband availability data in their BDC filings. To date, the reports concerning potentially false availability data have been anecdotal and it is unclear the extent to which they have been substantiated. Some errors may have been corrected by Commission's Fabric challenge process.

Finally, there are management challenges pertaining to the process whereby the Commission invite the public, state agencies, and other stakeholders to submit challenges identifying errors in the provider-submitted availability data. Did the Commission devote sufficient resources to enable it to process and keep track of the large number of challenges received, as well as timely and accurately resolve those challenges? Was the window for submitting the challenges sufficient to correct a meaningful number of errors in the provider-submitted data? Did the Commission's process for adjudicating the challenges fairly resolve them and improve the accuracy of the map data? Did the Commission extrapolate from individual challenges any broader trends that might call into question all submissions from a particular provider?

Inaccurate broadband deployment data is a management challenge with potentially large ramifications to the allocation of BEAD program funding to foster build-out in underserved areas to further bridge the digital divide.

Secure Networks Reimbursement Program\Supply Chain Reimbursement Program (a/k/a "Rip and Replace")

In March 2020, the President signed into law the Secure and Trusted Communications Networks Act of 2019 (the Secure Networks Act), which among other things required the Commission to establish a program to reimburse providers of advanced communications services for the removal, replacement, and disposal of covered communications equipment and services from their networks. That law built upon previous actions by the Commission designating Huawei Technologies Company and ZTE Corporation as "covered companies," and rules prohibiting the use of USF support to purchase or obtain any equipment or services produced or provided by a

[30] https://ntia.gov/press-release/2023/biden-harris-administration-announces-state-allocations-4245-billion-high-speed

covered company.

In December 2020, the Commission adopted the Supply Chain Second Report and Order, enacting rules that established the Secure and Trusted Communications Networks Reimbursement Program, i.e. Supply Chain Reimbursement Program (SCRP), as required by the Secure Networks Act. A few weeks later, the President signed into law the Consolidated Appropriations Act of 2021 (CAA), amending the Secure Networks Act that, among other things, expanded the reimbursement program eligibility pool to include larger telecom companies. The CAA also appropriated $1.9 billion to fund the SCRP. In April 2021, the Commission selected Ernst & Young to administer the SCRP. In July 2021, the Commission adopted the Supply Chain Third Report and Order to conform the rules for the SCRP to be consistent with the changes made by the CAA, and to flesh out additional details for the program.

In November 2021, the FCC began accepting applications for SCRP funding. By February 2022, providers had submitted applications requesting approximately $5.6 billion in SCRP funding, much more than the $1.9 billion appropriated. In July 2022, after reviewing the applications, WCB determined that "Priority 1 applicants have submitted approximately $4.6 billion in cost estimates that are reasonable and supported," and that "[b]ecause available funding is substantially less than that amount, the Commission rules require that allocations to Priority 1 applicants be prorated on an equal basis." WCB approved applications from 86 Priority 1 providers and set a pro-rata factor of 39.5% to be applied to their funding allocations.

As of July 2023, WCB and OMD had approved $190 million in reimbursement claims across 86 of the 126 applications approved for a funding allocation and set deadlines among those receiving a distribution to complete the removal of Huawei and ZTE communications equipment and services ranging from September 29, 2023, to June 30, 2024, based on the initial distribution of funds to the recipient.

In WCB's July 2023 Second Report to Congress on SCRP implementation, WCB estimated that "13% of recipients have completed the permanent removal, replacement, and disposal of all of the covered communications equipment and services in their networks" and that "approximately 85% of recipients have made some progress in their overall removal, replacement, and disposal plan but have not completed the work as of the third status update," and "2% of recipients indicated that they have not yet begun the work to permanently remove, replace, and dispose of the covered communications equipment and services in their networks." WCB noted that SCRP recipients cited four categories of challenges in their efforts to permanently remove, replace, and dispose of covered equipment and services: lack of funding; supply chain delays; labor shortages; and weather challenges.

According to FCC's public data on the program as of the end of July 2023, Reimbursement recipients reported claims of approximately $205 million, or 11%, of the $1.9 billion appropriated. While most of the disbursements in the program have not yet occurred, the reimbursements are allowed up to one year and extensions may be provided for an additional two years. Recipients were required to file at least one reimbursement claim within one year of the approval of their Application Request for Funding Allocation. Failure to file a reimbursement claim within the one-year period results in the reclamation of all allocated funding from the Reimbursement Program recipient and reversion to the Reimbursement Program fund for potential allocation to other Reimbursement Program participants.

Apart from challenges arising from an extended disbursement process, conducting audits, reviews, and field investigations, as required by the Secure Networks Act, ensuring program requirements were appropriately executed and implemented will be a significant management challenge for the Commission. Program participants are required to cover the remainder of the cost to remove, replace and dispose of covered equipment and services despite the funding shortfall. The Commission is tasked with the challenge of (1) determining whether the cost is typically incurred when transitioning from covered communications equipment or services to a replacement, comparing the cost relative to alternative equipment and services, and (2) comparing the capabilities and functions performed by the replacement equipment and services to determine whether they are comparable to the equipment and services removed.

Ensuring available program funds are allocated equitably, determining whether an extended disbursement process is managed properly, and ensuring that the execution and implementation of the program are monitored appropriately, will pose significant management challenges.

Compliance with Payment Integrity Information Act of 2019

The Payment Integrity Information Act (PIIA) of 2019 directs federal agencies and departments to undertake activities designed to identify, report, reduce and recover improper payments in government's programs and activities. To assess compliance, OIG engaged an independent certified public accounting firm to perform an audit.

In the FY 2022 Payment Integrity Information Act audit report, issued on May 24, 2023, our contractor found that three of the FCC's 10 programs, USF-Lifeline (LL), USF-HC, and USF-Schools and Libraries (S&L), were non-compliant with at least one PIIA criteria. Specifically:

- The USF-LL program was not compliant with PIIA criteria because, as of FY 2022 PIIA reporting, FCC had not accurately reported the overpayment amount first identified in the 2019 IPERIA audit report.

- The USF-HC Legacy program was not compliant with PIIA criteria for failing to publish its Improper Payments (IP) and Unknown Payments (UP) estimates for this program in FY 2022.

- The USF-S&L program was not compliant with PIIA criteria because FCC did not demonstrate improvements in reducing its improper payment estimates to a level at or below its tolerable improper payment rate or annual reduction targets as reflected in its FY 2022 PIIA reporting.

FCC management and USAC must continue its work to achieve compliance with PIIA going forward. Ensuring the Commission is compliant with the requirements of PIIA is considered a significant management challenge.

Compliance with the Digital Accountability and Transparency Act of 2014

In 2006, Congress passed the Federal Funding Accountability and Transparency Act (FFATA) of

2006,[31] requiring OMB to ensure the existence and operation of a free, publicly accessible website containing data on federal awards (such as contracts, loans, and grants). To comply with FFATA reporting requirements, OMB launched the website USAspending.gov.

In May 2014, the Digital Accountability and Transparency Act (DATA Act) of 2014 was signed into law, amending and augmenting FFATA, to increase accountability, transparency, accessibility, quality, and standardization in federal spending data. The DATA Act requires federal agencies to report financial and payment information to the public through USAspending.gov in accordance with government-wide financial data standards developed and issued by OMB and the Department of the Treasury.

In the FY 2021 DATA Act audit, OIG's contract auditors found that the FCC's DATA act submission was incomplete. Specifically, they reported that the FCC did not submit transaction-level TRS fund component spending data for the three consecutive audit cycles. Additionally, the FCC submitted USF spending data that did not comply with the DATA Act requirements because of significant deficiencies in the quality of the reported data. The FCC has not fully developed and executed a DATA Act project plan to capture, link, reconcile, and report on award-level financial and spending information with the TRS administrator. The auditors also found that the FCC did not implement a final Data Quality Plan during the scope of their review.

Although the FCC has taken steps to implement and use the data standards required by federal guidance in the past two years since our FY 2021 DATA Act audit report was issued in November, 2021, the FCC needs to continue making improvements to remediate the remaining open prior audit recommendations. As of September 2023, two of the nine 2021 audit report recommendations had been closed, three had been submitted for OIG review, and the remaining four had not been fully implemented. According to the FCC's most recent Corrective Action Plan, dated September 28, 2023, the FCC expects to fully implement its action plan of modifying its existing systems and processes that will facilitate reporting of TRS award-level financial spending information in a manner that complies with DATA Act requirements by April 30, 2024.

While the performance of the DATA Act audit is no longer required, OIG continues to monitor FCC's progress in implementing prior year DATA Act audit recommendations. Until outstanding implementation issues surrounding FCC components are addressed, full compliance with DATA Act will remain a significant management challenge.

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

[31] Public Law No. 109-282, Federal Funding Accountability and Transparency Act of 2006, sections 1 to 4, September 26, 2006.