

**Audit of Federal Communications
Commission's FY 2024 Financial Statements**

Report Number

24-AUD-06-01

November 15, 2024

Federal Communications
Commission FY 2024 Financial
Statements Audit

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 15, 2024

TO: Jessica Rosenworcel, Chairwoman
Brendan Carr, Commissioner
Geoffrey Starks, Commissioner
Nathan Simington, Commissioner
Anna Gomez, Commissioner
Mark Stephens, Managing Director

FROM: Fara Damelin, Inspector General

Fara Damelin

SUBJECT: Final Report on the Federal Communications Commission's Fiscal Year 2024 Consolidated Financial Statements Audit (Report No. 24-AUD-06-01)

In accordance with Accountability of Tax Dollars Act (ATDA) of 2002 (Pub. L. 107-289), dated November 7, 2002, the Office of Inspector General (OIG) is providing the final report on the Federal Communications Commission's (FCC) Fiscal Year (FY) 2024 Consolidated Financial Statements Audit.

The OIG contracted with Kearney & Company, P.C. (Kearney) to perform this audit consistent with the OIG authority under the Inspector General Act of 1978, as amended, including but not limited to 5 U.S.C. §§ 402(a)(1), 402(b), 404(a)(1), and 405(b). This audit is not intended as a substitute for any agency regulatory compliance review or regulatory compliance audit. The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States. These standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives.

The objectives of this audit were to:

- Meet the audit requirements established by the ATDA and OMB Bulletin 24-02, Audit Requirements for Federal Financial Statements;
- Express an opinion on whether the FCC's fiscal year 2024 consolidated financial statements are presented fairly in all material respects in accordance with the generally accepted accounting principles promulgated by the Federal Accounting Standards Advisory Board;

- Assess the effectiveness of internal controls over financial reporting and compliance with laws and regulations that could have a direct and material impact on the financial statements; and
- Provide a basis for the Government Accountability Office (GAO) to determine the extent to which it can use this audit work in support of the GAO's annual audit of the U.S. Government-wide Financial Statements, of which the FCC is a component.

Our contract auditor found that the FCC 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.

The report includes one significant deficiency with 27 recommendations for improvement. If implemented, the recommendations will aid the FCC in improving the effectiveness of Information Security Program controls in the areas of Risk Management, Configuration Management, Identity and Access Management, and Information Security Continuous Monitoring. The report also highlights improvements made by the FCC in FY 2024 and the related closure of 11 prior year financial and IT recommendations. We appreciate the FCC's attention to these matters and its associated progress.

In management's response, the FCC concurred with the recommendations made by the independent auditors.

Our contract auditor is wholly responsible for the attached audit report and the conclusions expressed therein. The OIG monitored Kearney's performance throughout the audit and reviewed the audit report and related documentation. Our review disclosed no instances where Keraney did not comply in all material respects with *Government Auditing Standards*.

Please direct any questions regarding this report to Sophie Jones, Assistant Inspector General for Audit, at (202) 210-0976 or sophila.jones@fcc.gov or Menjie Medina, Deputy Assistant Inspector General for Audit, at 202-418-0949 or Menjie.Medina@fcc.gov.

We thank management for the cooperation and assistance provided throughout this engagement.

Attachment

cc:

P. Michele Ellison, General Counsel
Narda Jones, Chief of Staff
Jae Seong, Chief Financial Officer
Allen Hill, Chief Information Officer

INDEPENDENT AUDITOR'S REPORT

To the Chairwoman, Managing Director, and 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, 2024 and 2023, the related consolidated Statements of Net Cost and Statements of 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, 2024 and 2023 and its net cost of operations, changes in net position, 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. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards 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 U.S. 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 GAAS and *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 GAAS and *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.

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, 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 financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual financial 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. 24-02, we have also issued reports, dated November 15, 2024, on our consideration of the FCC's internal control over financial reporting and on our tests of the FCC's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2024. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-02 and should be considered in assessing the results of our audits.

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

Alexandria, Virginia
November 15, 2024

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Chairwoman, Managing Director, and 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. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements, and the related notes to the financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2024, which collectively comprise the FCC's financial statements, and we have issued our report thereon dated November 15, 2024.

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. 24-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that 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 a certain deficiency in internal control, as described in the accompanying **Schedule of Findings** that we consider to be a significant deficiency.

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 FCC's Response to Findings

Government Auditing Standards requires 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 and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control 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. 24-02 in considering the FCC's internal control. Accordingly, this report is not suitable for any other purpose.

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

Alexandria, Virginia
November 15, 2024

Schedule of Findings

Significant Deficiency

I. Information Technology (IT) (Modified Repeat Condition)

Background: The 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 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 will issue a separate FISMA report. In addition to the work performed during our FISMA evaluation, we performed risk-based procedures on the FCC core financial management system, that were focused on IT controls 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 the financial system test 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) 2024 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 2024 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, during FY 2024 the FCC had not:

- Enforced the use of Personal Identity Verification (PIV) or other phishing-resistant multifactor authentication mechanism to remotely access FCC systems.
- Consistently remediated identified network vulnerabilities within the timeframes required by FCC policy.
- Effectively implemented the Risk Management Framework (RMF) for all information systems.
- Properly managed user accounts with access to the FCC’s network.
- Completed efforts to ensure compliance with the established Center for Internet Security (CIS) benchmarks for baseline configurations.
- Consistently maintained sufficient documentation to support the approval and testing results of all changes to the FCC’s general IT support system.
- **USAC Systems Utilized in Administering the USF Programs:** The FY 2024 FCC FISMA evaluation identified deficiencies in IT control areas that impacted the USAC’s FOS, EPC, and General Support System (GSS), including Identity and Access Management and Configuration Management. USAC did not complete efforts to ensure the GSS complied with the established CIS benchmarks for baseline configurations, nor did USAC properly manage user accounts with access to FOS and EPC.

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 2024 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 2024 FISMA Evaluation Report* included 27 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. Twenty-one of the recommendations relate to the FCC, and six of the recommendations relate to USAC. Of the 21 FCC recommendations, 14 relate to FISCAM control areas. All six of the USAC recommendations relate to FISCAM control areas.

* * * * *

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 Communication Commission’s (FCC) fiscal year (FY) 2023 financial statements, we noted two reportable findings. The status of the FY 2023 internal control findings are summarized in *Exhibit 1*.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2023 Status	FY 2024 Status
Information Technology (IT)	Significant Deficiency	Significant Deficiency
Accounting Treatment Related to Withheld Payments	Significant Deficiency	No findings

During the FY 2023 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 2023 internal control recommendations are summarized in *Exhibit 2*.

Kearney issued 25 recommendations in the FY 2023 Federal Information Security Modernization Act of 2014 (FISMA) evaluation report. During FY 2024, the FCC took appropriate action to close six recommendations, and we either updated or re-issued the 19 recommendations that were carried over from prior year. The *FY 2024 FISMA Evaluation Report* includes additional, detailed information on each of the 25 prior-year recommendations.

Exhibit 2: Status of Prior-Year Recommendations

Related Control Deficiency	Recommendation Description	FY 2024 Status
IT	Kearney issued 25 IT-related recommendations in FY 2023	19 open; six closed
Accounting Treatment Related to Withheld Payments	Kearney issued five recommendations related to the accounting treatment of withheld payments in FY 2023.	Five closed

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

To the Chairwoman, Managing Director, and 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. 24-02, *Audit Requirements for Federal Financial Statements*, the financial statements, and the related notes to the financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2024, which collectively comprise the FCC's financial statements, and we have issued our report thereon dated November 15, 2024.

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 the FCC's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts and disclosures. 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. 24-02.

Although our audit procedures did not identify any instances of known noncompliance as of and for the year ended September 30, 2024, 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, 2024.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements and the results of that testing, and not to provide an opinion on the effectiveness of the FCC's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing*



Standards and OMB Bulletin No. 24-02 in considering the FCC's compliance. Accordingly, this report is not suitable for any other purpose.

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

Alexandria, Virginia
November 15, 2024



UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION

Office of the Managing Director

DATE: November 15, 2024
TO: Fara Damelin, 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 2024

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 nineteenth straight year, the independent auditor provided an unmodified (“clean”) opinion and found that the Commission’s consolidated financial statements for Fiscal Year (FY) 2024 present fairly, in all material respects, the financial position of the Commission as of September 30, 2024. 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 2024 audit report identified a repeat significant deficiency related to information technology controls. We concur with the recommendations made by the independent auditors in their reports.

We look forward to working in FY 2025 to resolve the FY 2024 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: 2024.11.15
07:56:30 -05'00'
Mark Stephens
Managing Director
Office of Managing Director

Jae Seong

Jae Seong
Chief Financial Officer
Office of Managing Director

Allen Hill

Allen Hill
Chief Information Officer
Office of Managing Director

For information on FCC Financial Statements, Notes and Supplemental Information, please refer to the link PLACEHOLDER.