Federal Communications Commission
Office of the Managing Director

MEMORANDUM

Date: **November 15, 2016**

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

Pursuant to Office of Management and Budget (OMB) Circular A-136, agencies are required to submit their Fiscal Year (FY) 2016 Agency Financial Reports (AFR) to OMB, the Department of the Treasury, the Government Accountability Office (GAO), and the United States Congress by November 15, 2016. On November 8, 2016, OMB approved an extension for the Federal Communications Commission (FCC or Commission) to publish its Fiscal Year (FY) 2016 AFR. OMB granted the extension based on a request from the FCC due to legal concerns associated with disclosure of confidential auction payment amounts related to the ongoing broadcast incentive forward auction. OMB's extension grants the FCC until March 1, 2017 to publish its FY 2016 AFR. However, OMB did not extend the publishing deadline for the FCC's improper payment reporting section, which is still subject to the publication date of November 15, 2016 as established by OMB in Circular A-136. Accordingly, attached please find the improper payments reporting section of the FCC's FY 2016 AFR; the FCC will make the remainder of the FCC's AFR publicly available before March 1, 2017 or upon completion of the incentive auction bidding process.

The FCC's Office of Inspector General hired the independent auditing firm of Kearney and Company to perform the audit of the FCC's FY 2016 financial statements. Kearney and Company provided an unmodified opinion and found that the Commission's consolidated financial statements for FY 2016 present fairly, in all material respects, the financial position of the Commission as of September 30, 2016. We are pleased that this is the eleventh straight year of clean audit opinions for the Commission. Eleven continuous years of "clean" opinions is an unprecedented accomplishment for the Commission. Throughout this entire period, the FCC's staff has worked very hard to continue strengthening the Commission's internal controls and improving its financial management.

The Commission made significant strides in FY 2016 by resolving a prior year finding by the auditors that the FCC was not in compliance with the Debt Collection Improvement Act. This is the first year that the auditors have reported no instances of non-compliance with applicable provisions of laws and regulations for the FCC.

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

During FY 2016, the Commission and the Universal Service Administrative Company (USAC) implemented new processes and controls related to the previously identified material weakness from FY 2015 related to USF budgetary accounting in the Schools and Libraries and High Cost programs. Although the Commission and USAC made significant improvements in this area in FY 2016, the auditors found a significant deficiency related to recoveries in the Rural Health Care program.

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

Furthermore, the FCC is committed to remediating information technology control deficiencies. The Commission's information technology team worked diligently throughout FY 2016 to make improvements and to resolve audit findings from previous audits. The auditors recognized the FCC has improved its overall information security program and its compliance with the Federal Information Security Management Act (FISMA) and related guidance. In FY 2016, the FCC Chief Information Officer (CIO) and the new FCC Chief Information Security Officer led an IT Security team focused on improving the FCC's security posture. This initiative and the work completed in prior fiscal years reduced the FCC's overall number of FISMA findings by 64 percent from FY 2012 to the present audit, and the FCC is already working to resolve the remaining FISMA issues.

The FCC is committed to continually strengthening the internal controls of the Commission and its reporting components. With sufficient resources and time, the Commission will continue to address all weaknesses in its information systems. The FCC expects that ongoing upgrade efforts of its systems, along with strengthened processes and oversight, will eliminate a considerable number of the remaining weaknesses. The FCC will continue to implement improvements to the FCC network infrastructure and processes to strengthen the FCC's cyber security posture.

The FCC's commitment to strong internal controls includes developing timely, accurate, and useful financial information to ensure the most effective stewardship of the funds for which the Commission is responsible. We look forward to working in FY 2017 to resolve the FY 2016 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

Sincerely,

Mark Stephens
Managing Director

FEDERAL COMMUNICATIONS COMMISSION

Agency Financial Report

Fiscal Year 2016

(October 1, 2015 – September 30, 2016)

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3. Other Information

Summary of Financial Statement Audit

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

Summary of Management Assurances

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

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance	Systems do not conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Non-Conformances	**0**	**0**	**0**	**0**	**0**	**0**

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

The Federal Communications Commission (FCC or Commission) incorporated improper payments analysis and testing into processes implemented in Fiscal Year (FY) 2016 in compliance with federal improper payment law and guidance detailed in the Office of Management and Budget (OMB) Circular A-123 Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (Appendix C). Appendix C defines "significant improper payments" as gross annual improper payments (i.e., the total amount of overpayments and underpayments) in the program exceeding (1) both 1.5% of program outlays and $10 million of all program or activity payments made during the fiscal year reported or (2) $100 million (regardless of the improper payment percentage of total program outlays).

I. RISK ASSESSMENTS

The Commission has eight components with funding disbursements that are under the direction of the Commission and its Administrators. The Commission categorizes the components as listed below.

- Universal Service Fund High Cost Program (USF-HC)
- Universal Service Fund Schools and Libraries Program (USF-S&L) or (E-Rate)
- Universal Service Fund Lifeline Program (USF-Lifeline) or (USF-LL)
- Universal Service Fund Rural Health Care Program (USF-RHC)
- Universal Service Fund Administrative Costs (USF-Admin)
- Interstate Telecommunications Relay Services Fund (TRS)
- North American Numbering Plan (NANP)
- FCC Operating Expenses (FCC)

Of the programs listed above, the Commission has previously identified the USF-HC, USF-S&L, USF-LL and the TRS programs as susceptible to significant improper payments. In FY 2016, pursuant to Appendix C, which requires a risk assessment once every three years for the other programs (or periodically if significant changes occur), the Commission conducted a risk assessment of the four programs above that were not previously identified as susceptible to significant improper payments. Based upon this analysis, the Commission determined that the USF-RHC, USF-Admin, NANP, and FCC programs are not susceptible to significant improper payments.

In conducting the analysis, the Commission used the methodology described in Appendix C. Specifically, the Commission reviewed any quantitative data that would indicate a risk of significant improper payments that would exceed both 1.5% of program outlays and $10 million of all program or activity payments made during the fiscal year 2016 or $100 million (regardless of the improper payment percentage of total program outlays). In addition, the Commission analyzed each program's risk, taking into account the following nine factors identified by Appendix C: (1) whether the program or activity reviewed is new to the agency; (2) the complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts; (3) the volume of payments made annually; (4) whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office; (5) recent major changes in program funding, authorities, practices or procedures; (6) the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; (7) inherent risks of improper payments due to the nature of agency programs or operations; (8) significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the Government Accountability Office audit report findings, or other relevant management findings that might hinder accurate payment certification; and (9) results from prior improper payment work.

II. SAMPLING AND ESTIMATION

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

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

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

For C1 invoices, after the exclusion of a *de minimis* category in which the disbursement amount was less than $35, there remained 455,724 invoice lines constituting $1,836.5 million in disbursements. The disbursement strata were based on four categories: $35 to $999; $1,000 to $9,999; $10,000 to $99,999; and $100,000 and above. Sample sizes in these strata were 42, 162, 172 and 44 respectively, for a total of 420.

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

The FY 2016 procedures used for the assessments of calendar year 2015 transactions were similar to those in FY 2015: 1) measuring the accuracy of payments; 2) evaluating program applicants' eligibility; 3) testing high-level information obtained from program participants; 4) reviewing technology plans for certified approval and timing of approval, where applicable; 5) verifying service eligibility; 6) confirming lowest corresponding price; and 7) physically inspecting installation and use of equipment. The PQA plan used in FY 2016 for USF-S&L was designed to extrapolate an improper payment error rate for the program as a whole.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The PQA plan for USF-HC used in FY 2016 is an alternative sampling methodology, as approved by OMB, and was not designed to extrapolate an improper payment error rate for the program as a whole. Rather, the goal was to estimate an improper payment error rate for the Commission rules that were previously identified as subject to the highest improper payments. Assessments of calendar year 2015 transactions were conducted monthly and included: 1) steps to measure the accuracy of payments; 2) evaluation of carrier eligibility; 3) testing of high-level information obtained from program participants; and 4) testing for line count duplicates and summary schedule variances.

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

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

TRS: The TRS Fund Administrator, Rolka Loube, LLC (RL), hired an independent auditing firm to conduct testing for the TRS Fund utilizing an alternative sampling methodology previously approved by OMB. The independent audit firm relied on the guidance issued by OMB. The plan used in FY 2016 for TRS was not designed to extrapolate an improper payment error rate for the program as a whole. Rather, the goal was to estimate an improper payment error rate for the Commission rules that were previously identified in these programs as subject to the highest improper payments. The Commission is using an alternative sampling methodology because the TRS program has recently undergone significant changes to some components of the program. In addition, the Commission is establishing a user registration database that will allow it to test for all payments and establish a baseline error rate.

The scope of this review included processes performed by RL to determine whether the minutes presented by TRS service providers meet the criteria for reimbursement based on the Commission's rules. The error rate is calculated for minutes paid during the program year July 1, 2015 through June 30, 2016. The list below identifies the risk areas or attributes associated with improper payment to TRS Service Providers. These risks were tested for improper payments and the test results were utilized to develop the improper payment rate.

1. Payments made to TRS Service Providers on the "red light" list.
2. Payments are made to Video Relay Service (VRS), Internet Protocol (IP) Relay, or IP Captioned Telephone Service (CTS) service providers who did not submit a complete Speed of Answer (SOA) report.
3. Payments are made to VRS, IP Relay, or IP CTS service providers for days where the SOA daily performance standards are not met.
4. TRS funds are disbursed without proper authorization from RL to the bank and/or amounts do not reflect the approved rate.
5. Payments are made to VRS, IP Relay, or IP CTS service providers when Call Detail Records (CDRs) do not contain the required information in the required format.
6. Payments are made to VRS, IP Relay, or IP CTS service providers when the CDRs are not in compliance with the applicable FCC rules.
7. Payment to an ineligible TRS Service Provider due to non-submission or improper submission of the Intent to Participate.

The testing approach for attributes 1 through 7 included identifying the unique population and pulling a statistically valid sample from the defined population. Due to the small sample size, the plan called for a 100% test for attributes 1, 2, 3, 4, and 7. The total amount paid for all services during the program year July 1, 2015 through June 30, 2016 was approximately $982 million.

The remaining two attributes (5 and 6) have large populations resulting in the development of a statistically valid sample. These two attributes were tested together and the population was based upon the individual CDRs submitted for reimbursement for the three (3) IP-based services. The amount paid during program year July 1, 2015 through June 30, 2016 for all three IP-based services was approximately $963 million. The sample was selected randomly using actual values and the formula recommended in the statisticians approved statistical plan.

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

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

Upon complete analysis of the test results, no improper payments were identified. It should also be noted that the error rate is the absolute value of all erroneous payments during the program year July 1, 2015 through June 30, 2016 regardless of whether the payments were corrected. The calculated improper payment error rate for the testing period is 0.00%.

III. IMPROPER PAYMENT REPORTING

Table 1 below reports the improper payment rates for USF-HC, USF-LL and TRS using an OMB-approved alternative methodology for each program. USF-S&L established a baseline improper payment rate in FY 2015 and continued operating under the baseline procedures in FY 2016. Plans are currently in place for the FY 2017 testing period to enhance testing procedures for USF-HC and USF-LL programs. These enhanced procedures, along with a statistically valid sampling plan, as required by Appendix C, will enable the FCC to establish a baseline for the USF-HC and USF-LL programs as an outcome of the FY 2017 testing process.

As required by OMB and reported in Table 1 below, the Commission provided the current fiscal year outlays (CY Outlays) by each of the programs deemed to be susceptible to significant improper payments. The USF PQA process tests the calendar year, not the fiscal year; accordingly, the USF current year outlays noted below are for calendar year 2015 and the past year outlays are for calendar year 2014. For TRS, the time period tested is the program year, which is July 1, 2015 to June 30, 2016 for the current year, and the past year is July 1, 2014 to June 30, 2015. The future years for USF and TRS are fiscal years, as reported in the President's Budget. The CY and PY amounts are the extrapolated estimated amounts for USF-HC, USF-S&L USF-LL, and TRS.

Table 1
Improper Payment Reduction Outlook
($ in millions)

Program or Activity	PY Outlays	PY IP %	PY IP $	CY Outlays[2]	CY IP %	CY IP $	CY Over-payment $	CY Under-payment $	CY + 1 Est. Outlays	CY + 1 Est. IP %[3]	CY + 1 Est. IP $	CY + 2 Est. Outlays	CY + 2 Est. IP %	CY + 2 Est. IP $	CY + 3 Est. Outlays	CY + 3 Est. IP %	CY + 3 Est. IP $
USF – HC	$3,744.68	0.08%	$2.80	$4,305.42	0.03%	$1.10	$0.30	$0.80	$4,704.47	0.03%	$1.22	$4,919.16	0.03%	$1.28	$4,792.72	0.03%	$1.25
USF-S&L	$2,286.31	6.33%	$144.65	$2,093.19	5.70%	$119.36	$119.36	$0.00	$3,387.58	5.50%	$186.32	$3,562.60	5.00%	$178.13	$3,248.21	4.75%	$154.29
USF – LL	$1,635.86	0.45%	$7.31	$1,387.13	2.93%	$40.65	$40.65	$0.00	$1,602.71	2.75%	$44.07	$1,620.34	2.50%	$40.51	$1,585.71	2.25%	$35.68
TRS	$901.17	0.00%	$0.00	$981.66	0.00%	$0.00	$0.00	$0.00	$1,109.83	0.00%	$0.00	$1,115.64	0.00%	$0.00	$1,129.09	0.00%	$0.00
TOTAL[1]	**$8,568.02**	**1.81%**	**$154.76**	**$8,767.40**	**1.84%**	**$161.11**	**$160.31**	**$0.80**	**$10,804.59**	**2.14%**	**$231.61**	**$11,217.74**	**1.96%**	**$219.92**	**$10,755.73**	**1.78%**	**$191.21**

[1] Please note that as discussed in section II above, the FCC is still working towards establishing baseline error rates for USF-HC, USF-LL, and TRS. As such, the improper payment error rates in this table do not represent the baselines error rates for those FCC's programs yet. The FCC should have baseline error rates in its FY 2017 report.
[2] In the case of CY Outlays for USF-HC, USF S&L, and USF-LL, the numbers shown are calendar year numbers because the USF program fund year runs on a calendar year basis. In the case of TRS, the numbers shown are for the TRS fund year which runs from July 1 through June 30.
[3] The targeted future year improper payment rates are essentially constant for USF-HC (0.03%) for FY 2017-FY 2019. Achieving a target rate below 1.00% is low enough to be considered aggressive and realistic. It would be difficult to achieve a rate much lower than 0.03%. In addition, the Commission plans to add more transaction points to its USF-HC, USF-LL and TRS testing during the next few years of assessments. As a result, the Commission does not expect the error rates to necessarily decrease. In fact, it is likely the anticipated additional procedures will result in an increased number of errors that are identified.

IV. IMPROPER PAYMENT ROOT CAUSE CATEGORIES

Table 2 below categorizes the improper payments by root cause categories. Many of the USF improper payments do not fit logically into the improper payment root cause categories established by OMB. These payments are therefore categorized under an "Other Reason" category. The "Other Reason" categories are defined in Table 2 below or below Table 2 in a separate chart. We have also provided separate charts for USF-S&L and USF-LL below Table 2 to detail the root causes for the Insufficient Documentation to Determine category.

Table 2
Improper Payment Root Cause Category Matrix
($ in millions)

Reason for Improper Payment		USF – HC		USF – S&L		USF – LL		TRS	
		Overpayments	Underpayments	Overpayments	Underpayments	Overpayments	Underpayments	Overpayments	Underpayments
Program Design or Structural Issue		$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
Inability to Authenticate Eligibility		$0.00	$0.00	$1.23	N/A	$0.00	N/A	$0.00	$0.00
Failure to Verify:	Death Data	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
	Financial Data	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
	Excluded Party Data	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
	Prisoner Data	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
	Other Eligibility Data (explain)	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
Administrative or Process Error Made by:	Federal Agency	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
	State or Local Agency	$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
	Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	$0.00	$0.00	$7.84	N/A	$0.00	N/A	$0.00	$0.00
Medical Necessity		$0.00	$0.00	$0.00	N/A	$0.00	N/A	$0.00	$0.00
Insufficient Documentation to Determine (see tables below)		$0.00	N/A	$46.87	N/A	$23.54	N/A	$0.00	N/A
Other Reason (a) (Incorrect Part 36 and Incorrect Revenues)		$0.30	$0.80	N/A	N/A	$0.00	N/A	N/A	N/A
Other Reason (b) (see table below)		N/A	N/A	$63.42	N/A	$0.00	N/A	N/A	N/A
Other Reason (c) (Duplicate Subscriber)		N/A	N/A	N/A	N/A	$17.11	N/A	N/A	N/A
TOTAL		**$0.30**	**$0.80**	**$119.36**	**N/A**	**$40.65**	**N/A**	**$0.00**	**$0.00**

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

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

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

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

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

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

V. IMPROPER PAYMENT CORRECTIVE ACTIONS

OMB guidance requires that agencies detail corrective action plans for those programs with improper payment rates or amounts above the statutory thresholds of either (1) both 1.5 percent of program outlays and $10 million, or (2) more than $100 million. For the Commission, USF-S&L and USF-LL exceed the statutory thresholds for FY 2016. Below, the Commission details its efforts to prevent and reduce future improper payments for both the USF-S&L and USF-LL programs. Some of the efforts apply to all of the root cause errors while others are specific to a particular category.

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

Applicable to all Root Cause Categories

- This year, as part of USAC's strategic initiatives, USAC continued analyzing audit and assessment data in an effort to identify common findings. In addition, USAC refined its "full circle" approach which allows for development of effective outreach tailored to address the most frequently violated FCC rules, improve internal controls, and revise policies and procedures accordingly.

  In response to a recommendation from the Government Accountability Office (GAO), the Commission and USAC jointly conducted a robust risk assessment of the USF-S&L program. The risk assessment, which was performed by an external contractor, was finalized in May 2015. The assessment team evaluated program and process risks and made numerous recommendations for ways that USAC and the Commission can strengthen internal controls to reduce improper payments and increase the effectiveness and efficiency of processes. USAC developed corrective action plans to address the recommendations. About half of the corrective action plans have been completed and half are still in progress. Most of the items that are still in progress are long-term initiatives that rely heavily on IT system development or require extensive collaboration between USAC and the FCC.

- The Commission and USAC are overhauling E-rate information collections and the IT systems. Developments to USAC forms and IT systems will reduce the potential for improper payments. New, all-electronic forms will be easier to use and will retain information year-to-year, reducing user errors. As a result of improvements to IT systems, stakeholders will be able to share documentation with USAC in its portal, and USAC will have access to additional competitive bidding documentation, such as requests for proposals, which applicants are now required to upload in coordination with their FCC Form 470. These changes will minimize the instances of over-invoicing for ineligible equipment, services not supported by bills, and/or services not approved or requested and will make it easier for USAC to determine compliance with competitive bidding rules. The IT changes are being phased in; they began in January 2015 and will continue over the next few years.

- The Commission is working with USAC on outreach activities designed to help participants successfully participate in the program and reduce the potential for errors and improper payments. These include reviewing top invoicing issues during monthly calls with E-rate stakeholders to educate participants on their obligation to remove ineligible services. Additionally, specific training related to this issue has been added to the on-going applicant trainings being conducted by USAC. USAC has also hired a Director of Stakeholder Engagement to oversee outreach activities to USF-S&L beneficiaries and service providers. In addition, USAC is establishing a vendor management group to provide additional oversight on stakeholder interaction and the application review process. Additional USAC outreach efforts include the in-person applicant trainings held in the fall and in-person service provider trainings held in the spring; weekly news briefs educating applicants and service providers on program rules and procedures; special news briefs to address major changes; and monthly calls and/or webinars with various stakeholder groups including a monthly Service Provider Webinar.

Applicable to Specific Issues

- **Inability to Authenticate Eligibility:** USAC will continue to perform outreach with States to assist with the identification of eligible entities; this will be performed on a biennial basis. USAC provides additional training to include webinars, monthly calls, annual trainings, weekly News Briefs, etc. to better educate applicants and service providers on their obligations as program participants.

- **Insufficient Documentation to Determine:** In 2014, the Commission adopted two *E-rate Modernization Orders* that, among other things, extended the document retention period for the E-rate program to 10 years after the last date of service and clarified that E-rate applicants and service providers must permit auditors, investigators, attorneys or any other person appointed by a state education department, USAC, the Commission or any local, state or federal agency with jurisdiction over the entity to enter their premises to conduct E-rate compliance inspections.

  USAC is developing and implementing changes to its information technology systems that will further improve document retention compliance. Already, applicants have the ability to store many of their documents to the new information technology portal. USAC plans to expand the document storage option, so that applicants and service providers can store all of their relevant records. Applicants are prompted during the form submission process to save documentation associated with the form in the portal. In addition, documentation that must be retained for audits will be identified and posted on the USAC website. This initiative is still in progress.

- **Administrative or Process Error:** USAC is developing and implementing changes to the information technology systems and interfaces that will minimize the instances of over-invoicing for ineligible equipment, services not supported by bills, and/or services not approved or requested. In addition, the USF-S&L Invoicing Team performs post-disbursement reviews, which includes the review of a sample of paid invoices, to check the performance of the automated invoicing procedures. The post-disbursement reviews are already in place. The other IT changes are being phased in; USF-S&L is developing an invoicing portal that will require applicants to include line item descriptions of the services/equipment billed.

  As noted above, USAC is implementing additional training for participants in the program, including reviewing top invoicing issues during monthly calls with USF-S&L stakeholders to educate participants on their obligation to remove ineligible services.

- **Other Reason:** USAC is implementing additional outreach to inform schools and libraries that the equipment purchased with USF-S&L funds must be in use within the funding year in which the disbursement is received. In addition, during the next few funding years, USAC and the Commission will be investigating additional ways to reduce this error, including, for example, requiring an acknowledgement or confirmation by the school or library that the equipment is installed and in use before USAC will approve the reimbursement request.

  The *Second E-rate Modernization Order* directs USAC to simplify the calculation of discount rates to enable applications to more easily manage the discount calculation process in advance of the E-rate application filing window. The changes to the rules adopted in the order, simplification of the discount rate determinations, and the IT improvements that USAC has made will make it easier for applicants to calculate their discount rates and for USAC to verify those rates.

USF-LL

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

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

VI. INTERNAL CONTROL OVER PAYMENTS

OMB guidance requires that agencies summarize the status of internal control over payments for those programs with improper payment rates or amounts above the statutory thresholds of either (1) both 1.5 percent of program outlays and $10 million, or (2) more than $100 million. For the Commission, USF-S&L and USF-LL are the only programs that exceed the statutory thresholds for FY 2016. Table 3 below summarizes the status of internal control over improper payments in order to link the Commission's efforts in establishing internal controls with the reduction in improper payment rates.

The Commission and USAC work together continually to develop and improve an internal control program in compliance with OMB Circular A-123 that provides reasonable assurance that internal controls over payments are in place and operating effectively. The program is consistent with the Standards for Internal Control in the Federal Government (Green Book) as well as the internal control framework established by the Committee or Sponsoring Organization of the Treadway Commission (COSO). USAC's internal control program has been functioning for several years with a dedicated staff that performs risk assessments and documents and tests key internal controls throughout the company, including internal controls over payments.

In FY 2015, in response to a recommendation from the GAO, the Commission and USAC jointly conducted a robust risk assessment of the USF-S&L program. USAC hired an independent, external contractor to perform the risk assessment. The risk assessment was finalized in May 2015. The assessment team evaluated program and process risks and made numerous recommendations for ways that USAC and the Commission can strengthen internal controls to reduce improper payments and increase the effectiveness and efficiency of processes. The Commission and USAC have developed corrective action plans to implement the recommendations. About half of the corrective action plans have been completed and half are still in progress. Most of the items that are still in progress are long-term initiatives that rely heavily on IT system development or require extensive collaboration between USAC and the FCC.

In FY 2016, USAC performed an entity-level assessment in order to determine compliance with the standards and principles in the Green Book and COSO frameworks. The assessment team considered the results of the independent risk assessment and also gathered data through internal control questionnaires administered to key members of USAC management. Analysis of the data revealed the following:

- Control Environment: USAC's control environment emphasizes accountability as well as ethics, and has defined consequences for failing to comply with the code of conduct. Authority and lines of reporting are clearly defined. In addition, personnel involved in developing, maintaining, and implementing control activities have the requisite knowledge and skill needed to perform their duties.
- Risk Assessment: As mentioned, staff responsible for carrying out USAC's internal control program perform risk assessments on an annual basis. Assessments are performed for key financial business processes as well as for the programs (including the USF-S&L and USF-LL programs). The assessments are designed to identify where risks exist, what those risks are, and the potential impact of those risks on program goals, objectives, and operations. Testing resources are focused on areas where there is greater risk exposure.

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

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

- Control Activities: USAC has developed control activities to help achieve the objective of reducing improper payments. The control activities include, but are not limited to, the following: development of policies and procedures related to transaction authorization and approvals of program activities intended to mitigate the risk of improper payments; performance of pre-award reviews where detailed criteria are evaluated before funds are submitted for disbursement; and utilization of data analytics tools (e.g., the "red light" database) to compare information from different sources to ensure that payments are appropriate.
- Information and Communication: USAC uses and shares information internally and externally to reduce improper payments. In 2015, USAC implemented a strategic management process. Numerous strategic initiatives have been identified at both the corporate and divisional levels; several initiatives address cost-effective program execution with an emphasis on program integrity and outcomes. Progress toward initiatives is reported regularly, providing managers with timely feedback on applicable performance measures so they can use the information to effectively manage their programs.

  Board meetings are held on a quarterly basis. The USAC Board is appointed by the FCC and comprised of individuals from both the private and public sector who represent external stakeholders. These meetings provide an additional mechanism to obtain information relevant to external stakeholders that may have a significant impact on improper payment initiatives. In addition, the programs conduct a variety of external outreach (e.g., training sessions, newsletters) to assist program participants in understanding program requirements.

  Finally, USAC and the FCC have ongoing communications of both a formal and informal nature. These communications address a variety of topics that include, but are not limited to, improper payment prevention and reporting, and improvement to internal controls.

- Monitoring: USAC reviews and assesses the success of initiatives to reduce improper payments. As previously mentioned, USAC has an established internal control assessment methodology that includes testing of control design and operating effectiveness and the evaluation of the significance of internal control deficiencies. Corrective action plans to remediate deficiencies are assigned completion dates, and the internal controls team monitors deficiencies to ensure that they are remediated in a timely manner. Control activities are adjusted, as needed, based upon the results of testing. In addition, the annual root cause analysis requires the programs to develop action plans that address the root causes contributing to common audit findings, in addition to the specific corrective action responses to the audit findings.

  Finally, USAC adheres to existing laws and OMB guidance and uses a statistical methodology to estimate the level of improper payments being made by the programs. USAC and the Commission establish program-specific targets for reducing improper payments.

The analysis above, in conjunction with the results of the annual risk assessments, was used to complete Table 3.

Table 3
Status of Internal Controls

Internal Control Standards	USF – S&L	USF – LL
Control Environment	3	3
Risk Assessment	3	3
Control Activities	3	3
Information and Communication	4	4
Monitoring	3	3

Legend:
4 = Sufficient controls are in place to prevent IPs
3 = Controls are in place to prevent IPs but there is room for improvement
2 = Minimal controls are in place to prevent IPs
1 = Controls are not in place to prevent IPs

VII. ACCOUNTABILITY

OMB guidance requires that agencies summarize accountability for those programs with improper payment rates or amounts above the statutory thresholds of either (1) both 1.5 percent of program outlays and $10 million, or (2) more than $100 million. For the Commission, USF-S&L and USF-LL are the only programs that exceeds the statutory thresholds for FY 2016. The Commission continues to work internally and with USAC's management to assess the effectiveness of program management necessary to ensure accountability over USAC's operations and senior leadership. The Commission is actively working with USAC's management to review and assess the effectiveness of current financial reporting requirements and to further efforts to reduce and prevent improper payments.

In FY 2015, USAC implemented a strategic management framework, whereby corporate, division and program objectives have been established in conjunction with the Commission, and numerous strategic initiatives have been identified that will contribute to the achievement of those objectives, including several initiatives that address cost-effective program execution with an emphasis on program integrity and outcomes. Progress on initiatives is reported regularly, providing managers and decision-makers with timely feedback and measurement of progress toward achieving the strategic objectives.

VIII. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

OMB guidance requires that agencies detail information regarding the agency information systems and infrastructure for those programs with improper payment rates or amounts above the statutory thresholds of either (1) both 1.5 percent of program outlays and $10 million, or (2) more than $100 million. For the Commission, USF-S&L and USF-LL are the only programs that exceeds the statutory thresholds for FY 2016.

The USF-S&L program's information technology systems are near the end of their useful life. The program's systems are critical to the operation and integrity of the program as schools and libraries apply for funding through the system, submit documentation, and review the status of their applications. In addition, USAC uses the systems to perform automated checks of applicant eligibility and the accuracy of their requests for commitment and disbursement of funding. Initially developed more than 10 years ago, the systems are expensive to maintain; are inflexible; have layers of patches and workarounds that have been implemented; and incorporate numerous hardware and software components that are no longer supported by the developer. A complete replacement is necessary in order to support the significant changes to the program and provide a positive user experience for the USF-S&L applicants and service providers.

In early FY 2015, USAC, working in conjunction with the FCC, conducted extensive market research on alternative IT solutions available for the USF-S&L program. USAC held meetings with consultants to gather feedback on the type of systems/applications best suited for the program. A vendor was selected in January 2015. USAC implemented a system to support the program's funding year 2016 application activities, including processing of the Form 470 and 471.

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

In addition, under the Commission's oversight, USAC has expanded outreach designed to prevent the errors identified in the PQA process from recurring, enhanced internal controls and data collection to gain greater visibility into payment operations, calibrated audit and audit follow-up activities to gain greater certainty about beneficiary support, and modernized information technology systems to achieve greater efficiencies and improve reporting capabilities. External consultants have been contracted to assist with the equipment inventories being performed under the enhanced USF-S&L sampling. Additionally, the Commission and USAC are working to improve document retention compliance by developing a document portal for applicants and service providers to store their records. Information about what documentation must be retained for audits will be identified and posted on the USAC website. Finally, as discussed above, USAC has also increased the number of employees and resources to perform reviews of audit findings and recovery of funds.

IX. BARRIERS

The FCC has not identified any barriers, statutory, regulatory or otherwise at this time that may limit the agency's corrective actions in reducing IPs stemming from the USF-S&L program.

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

X. RECAPTURE OF IMPROPER PAYMENTS REPORTING

The following discussion is a summary of the Commission's payment recapture audits for FY 2016 for programs with more than $1 million in annual outlays.

USF

The Commission has directed USAC to conduct payment recapture audits as part of USAC's administration of the USF programs. The payment recapture audits for all four USF beneficiary programs are called the Beneficiary and Contributor Audit Program (BCAP). In addition to recovering funding that was improperly disbursed, the BCAP is also designed to evaluate USF beneficiary and contributor compliance with FCC rules. The payment recapture audit program for the FY 2016 BCAP was developed with the following objectives:

- Covering all four USF programs with disbursements;
- Tailoring audit type and scope to program risk elements, size of disbursement, audit timing, and other specific factors (*i.e.*, recognizing that the programs and beneficiary types are different, the audits do not adopt a "one-size-fits-all" approach);
- Generally, keeping costs of the program reasonable in relation to overall program disbursements, to the amounts disbursed to the beneficiary being audited, and as a part of USF administrative costs;

- Ensuring that auditors receive proper training on the telecommunications industry and the USF rules and requirements;
- Spreading audits throughout the year to balance workload, improve efficiencies, control costs, reduce unnecessary burdens on beneficiaries, and maintain a pool of trained auditors; and
- Retaining capability and capacity for targeted and risk-based audits to be conducted as recommended by USAC management, the FCC, or law enforcement entities.

The Commission and USAC have examined the results of the audits and assessment programs conducted for FY 2016 and have implemented a corrective action plan in response to any findings and consistent with Appendix C and OMB Circular A-50. In addition, the Commission and USAC continue to incorporate lessons learned into future audit and assessment efforts.

USAC completed 158 audits in FY 2016, of which 68 involved overpayments. Of these, auditors have identified $8,044,263 to be recovered. USAC is in the process of recovering those amounts.

Below are the number of audits performed and the estimated recovery amounts, by program:

Program or Activity	# Audits	# Audits with Overpayments	Estimated Recovery
USF-HC	46	29	$1,456,833
USF-S&L	81	32	$6,503,946
USF-LL	16	4	$4,504
USF-RHC	15	3	$78,980
Total	**158**	**68**	**$8,044,263**

Most overpayments are due to violations of program rules by beneficiaries and service providers. USAC and the Commission continue to develop preventive measures to identify those potential overpayments and eliminate them, using the strategies discussed below. USAC develops corrective action plans and seeks recovery of overpayments in accordance with OMB Circular A-50 and the Commission's internal audit directive. For each audit, USAC develops a corrective action plan, which the Commission reviews and approves. For audits of USF-HC and USF-LL, USAC notifies the auditee of findings and any recovery amounts. USAC recovers the funding by offsetting the overpayments against future payments, as applicable. For USF-S&L and USF-RHC, USAC seeks recovery but does not offset the overpayments against other expected funding. In addition, throughout the year, USAC develops a root cause action plan to identify commonalities across the audits for each program. USAC then makes appropriate changes to internal controls or policies and procedures to identify issues prior to disbursements. For further details regarding the efforts underway, see the discussion above for USF-S&L in Section V, Improper Payment Corrective Actions. USF-S&L audit findings are similar to the improper payments identified in the sampling process, thus the same improvements will be used to prevent audit findings in the future.

For USF-LL, corrective actions will include, but not be limited to, the following activities: (1) updating form filing systems to remind carriers of required documentation requirements; (2) leveraging the quarterly newsletter throughout the year to provide relevant information on key USF-LL processes that result in common mistakes, i.e., focus on recertification before the peak processing period when it would be most helpful to carriers; (3) enhancing the existing USAC website information on common audit findings to ensure compliance; (4) developing additional training tools such as online videos and testing for carriers to measure their understanding of program requirements; and (5) hiring a Director of Stakeholder Engagement. Note that some proposed changes for all of the programs may require a rulemaking or other action by the full Commission to implement. For example, the Commission has recently implemented changes to the USF-LL program that could reduce improper payments due to upcoming changes in eligibility verification through the implementation of a new National Eligibility Verifier to make independent subscriber eligibility determinations.

For USF-HC, in July 2016, all eligible telecommunications (ETCs) carriers timely filed their annual reports through an electronic filing system for FCC Form 481, which includes operational and financial information and certifications. This electronic filing system improves the ability to oversee ETC program participation and compliance. Other actions include additional outreach, such as monthly newsletters, webinars, videos and FAQs. USAC has also created a dedicated website that references rules established by orders, such as specific direction regarding documentation requirements. The website and newsletters will reference specific rules and regulations concerning systems for collecting, reporting and monitoring data and provide guidance regarding steps carriers can take to ensure accuracy of data and form submissions. These references will address the top audit findings and will provide preventive measures and resources so that beneficiaries can avoid these audit findings.

The USF-HC program is continuing to evolve pursuant to the *USF/ICC Transformation Order* originally adopted by the Commission in 2011 and going-forward will modify its approach to address audit findings. The program currently performs desk reviews and verification checks before and after making disbursements that are designed to proactively reduce errors. Therefore, starting in 4Q2016, rather than providing beneficiaries with information to avoid audit findings, USAC will perform corporate assurance audits designed to ensure verification checks are adequate and effective. The modified process in combination with the corporate assurance audits will result in a reduction of audit findings.

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

To assist in the completion of payment recapture audits in FY 2016, USAC hired outside auditors to conduct some of the program audits. After conducting a two-tier procurement process, USAC selected the following auditors: KPMG (USF-S&L and USF-HC), Cotton & Company (USF-HC), BCA Watson Rice (USF-RHC), DP George (USF-RHC and USF-LL), Williams Adley (USF-S&L), PwC (USF-S&L), and Moss Adams (USF-HC).

USF-Admin

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

USAC has not identified any overpayments in the payment recapture audits of its administrative outlays at this time, but if it did, it would seek recovery in accordance with the audit follow-up procedures outlined in OMB Circular A-50.

TRS

The TRS Fund compensates telecommunications relay service providers for the reasonable costs of offering services, in compliance with the Commission rules, that enable individuals who are deaf, blind, or have a hearing or speech disability to communicate in a manner that is functionally equivalent to voice telephone users. Rolka Loube, LLC (RL), the TRS Fund Administrator, having been awarded a contract by the FCC, is responsible for the collections and disbursements from the TRS Fund with oversight, guidance, and direction from the FCC. TRS outlays for FY 2016 totaled approximately $1.03 billion.

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

For all TRS payment recapture audits, the Commission will work with RL to ensure that all findings and observations are addressed and remediated by providers and that RL implements a corrective action plan for each finding. For any overpayments identified in its payment recapture audits, RL seeks recovery in accordance with the audit follow-up procedures outlined in OMB Circular A-50.

NANP

NANP is the basic numbering scheme permitting interoperable telecommunications services within the U.S., Canada, Bermuda, and most of the Caribbean. NeuStar, Inc. is the NANP Administrator, and Welch LLP is the billing and collection agent. Total outlays for the NANP Fund for FY 2016 totaled approximately $5.9 million. Welch, as the billing and collection agent of the NANP Fund, oversees disbursements for the NANP program.

In FY 2016, Welch tested 91% of the transactions representing $5.4 million for improper payments and found no overpayments to recapture. In addition, in connection with the NANP Fund annual financial statement audit for FY 2015, an independent auditor tested approximately $1.38 million in disbursements, which represented 24 percent of the approximately $5.9 million in total disbursements, and found no improper payments. Nonetheless, to further safeguard against overpayments, Welch reviews each transaction for completeness and to ensure compliance with Commission requirements and relevant regulations, as part of Welch’s internal control measures. Moreover, disbursements to NeuStar and other service providers are based on fixed price contract awards by the Commission requiring approval by the Commission’s contracting officer. Also, an annual AUP engagement was conducted by Ernst & Young LLP to assess internal controls and compliance with the Fund’s requirements and Commission rules. Welch has not identified any overpayments in its payment recapture audits, but if it did, it would seek recovery in accordance with the audit follow-up procedures outlined in OMB Circular A-50.

FCC

Overseen by the Office of Managing Director (OMD), the Commission's operating expenses are separated into two categories: (1) payroll expenses, *i.e.*, compensation and benefits related to employees' pay; and (2) non-salary disbursements such as travel expense, rent, building maintenance, training, and contractor expense.

Under the salary testing process, the Commission staff selected 50 transactions for review from the universe of payments. The Commission staff tested the disbursement of salary transactions to determine if any employee's salary, or other compensation and benefits, were overpayments.

Under the non-salary testing process, the Commission staff selected 50 transactions for review. The Commission staff tested the disbursement of non-salary transactions to determine if: (1) payments were made to an ineligible recipient, (2) payment was made for an ineligible service, (3) duplicate payments were made, (4) payment was made for services not rendered, (5) prompt payments were made, (6) all signatures required were made, and (7) all payment amounts were correct.

For FY 2016, the payment recapture audits conducted by Commission staff on a sample of the Commission's operating expenses had no identified overpayments. The Commission's outlays for FY 2016 totaled approximately $456 million, excluding intra-governmental custodial payments as allowed by OMB. . The Commission has not identified any overpayments or underpayments in its payment recapture audits, but if it did, it would seek recovery in accordance with the audit follow-up procedures outlined in OMB Circular A-50.

Payment Recapture Audit Reporting

In Table 4 below, the Commission reports the amounts identified in FY 2016 payment recapture audits and corresponding recapture rate targets. Table 4 also includes overpayments identified and recaptured outside of payment recapture audits. Overpayments identified and recaptured outside of the payment recapture audits may include, but are not limited to, improper payments identified through statistical samples conducted under IPERIA (known as the PQA program for USF); internal review processes (i.e. commitment adjustments, in-depth validations, etc.); OIG audits; self-reporting; or investigations. As directed by OMB, the chart includes overpayments identified and recovered in FY 2016, regardless of the time period the audit covered or when the overpayment was actually made.

The targets for USF-Admin, NANP, and FCC are "not applicable" because no audit findings were identified. For USF programs, the recovery rates can vary widely from year to year. The recovery rates – and therefore future targets – can typically be less than 50 percent annually, primarily because participants in the programs have the right to appeal the improper payment findings, and sometimes may appeal multiple times at different levels of the process (e.g., to USAC and then to the Wireline Competition Bureau at the Commission). As such, it is unlikely that all identified overpayments can be recovered within the same fiscal year they are identified.

The process proceeds as follows: USAC performs audits throughout the year, and after an audit is completed, it must be approved by the USAC Board of Directors in a quarterly Board meeting. If an overpayment is identified, the relevant program division is responsible for sending program participants a letter adjusting their funding amounts for the funding years audited. In addition, prior to adjusting the funding amounts based on the audit finding, the program division may perform additional work to determine if an error identified within the scope of the audit existed in other time periods as well. After the decision of USAC to seek recovery of funding identified as an overpayment, applicants and service providers have 60 days to appeal to USAC, or they may file a waiver request directly with the Commission. If the appeal is to USAC, petitioners are afforded an additional opportunity to appeal USAC's decision to the Commission. Most appeals to the Commission are decided by the Wireline Competition Bureau. After an initial appeal order is released by the Wireline Competition Bureau, petitioners have the right to seek reconsideration or further review by the full Commission. The full appeals process, therefore, can take a significant amount of time, which then affects the time period by which recoveries can be completed. If applicants and service providers avail themselves of the right to appeal audit findings to the Commission, it is unlikely that USAC will be able to recover the funding within the fiscal year.

Table 4
Overpayment Payment Recaptures with and without Audit Programs
($ in millions)

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

Footnotes for Table 4

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

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

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

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

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

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

Table 5
Disposition of Funds Recaptured Through Payment Recapture Audit Programs
($ in millions)

Program or Activity	**Amount Recovered** *(This amount will be identical to the "Amount Recovered" in Table 4)*	**Type of Payment** *(contract, grant, benefit, loan, or other)*	**Original Purpose**
USF - HC	$1.398	Benefit	$1.398
USF - S&L	$2.100	Benefit	$2.100
USF - LL	$0.285	Benefit	$0.285
USF - RHC	$0.001	Benefit	$0.001
USF-Admin	$0.000	Contract	$0.000
FCC	$0.000	Contract	$0.000
NANP	$0.000	Contract	$0.000
TRS	$0.019	Benefit	$0.019
TOTAL	**$3.803**		**$3.803**

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

Table 6
Aging of Outstanding Overpayments Identified in the Payment Recapture Audits
($ in millions)

Program or Activity	**Type of Payment** *(contract, grant, benefit, loan, or other)*	**Amount Outstanding** (0 – 6 months)	**Amount Outstanding** (6 months to 1 year)	**Amount Outstanding** (over 1 year)	**Amount determined to not be collectable** *(include justification in Payment Recapture Narrative)*
USF-HC	Benefit	$0.334	$0.000	$0.000	$0.000
USF-S&L	Benefit	$0.294	$4.814	$0.000	$0.000
USF-LL	Benefit	$0.000	$1.653	$0.000	$0.000
USF-RHC	Benefit	$0.072	$0.000	$0.000	$0.000
USF-Admin	Contract	N/A	N/A	N/A	N/A
NANP	Contract	N/A	N/A	N/A	N/A
FCC	Contract	N/A	N/A	N/A	N/A
TRS	Benefit	$0.001	N/A	N/A	$0.000
TOTAL		**$0.701**	**$6.467**	**$0.000**	**$0.000**

XI. ADDITIONAL COMMENTS

Not applicable.

XII. AGENCY REDUCTION OF IMPROPER PAYMENTS WITH THE DO NOT PAY INITIATIVE

The Commission reports its efforts related to improper payment reduction by reporting component, except the USF programs are combined with the USF-Admin component.

Table 7 – FCC
Results of the Do Not Pay Initiative in Preventing Improper Payments
($ in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases	9,113	$149.56	0	$0.00	17	$0.07
Reviews with databases not listed in IPERIA	N/A	N/A	N/A	N/A	N/A	N/A

Pursuant to the Do Not Pay Initiative, the FCC has incorporated the IPERIA listed Do Not Pay (DNP) database and the continuous monitoring program into our existing business processes. Monthly, the FCC generates an updated vendor file to be placed on Treasury's server. This file is matched with the Death Master File of the Social Security Administration (DMF), the General Service Administration's Excluded Parties List System (EPLS) and the System for Award Management (SAM). If there are any stopped payments, the FCC will research the item and contact the vendor. If it is a positive match, the FCC will tell the vendor to contact Treasury for details regarding the stopped payment. If the match is a false positive, the FCC will submit an Adjudication report to Treasury. If there are no matches, the FCC saves the report to end the process. Below are the results from FY 2016:

1. No report submitted for October – no matches identified for this month, so no report was necessary however there were 2 payments that DNP was unable to match.
2. No report submitted for November – no matches identified for this month, so no report was necessary however there were 2 payments that DNP was unable to match.
3. No report submitted for December – no matches identified for this month, so no report was necessary however there were 3 payments that DNP was unable to match.
4. No report submitted for January – no matches identified for this month, so no report was necessary.
5. No report submitted for February – no matches identified for this month, so no report was necessary.
6. No report submitted for March – no matches identified for this month, so no report was necessary.
7. No report submitted for April – 1 match was identified on the DMF (Adjudicated in September) also there were 3 payments that DNP was unable to match.
8. No report submitted for May – no matches identified for this month, so no report was necessary.
9. No report submitted for June – no matches identified for this month, so no report was necessary however there were 2 payments that DNP was unable to match.
10. No report submitted for July – no matches identified for this month, so no report was necessary however there were 3 payments that DNP was unable to match.

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

In reviewing the Commission's summary reports, the Commission came to the following conclusions:

- The FCC rarely has matches on the Death Master File;
- The FCC has monitored payments to employees as well as vendors; and
- The reconciliation of matches all proved to be false positives.

Red Light process. The Commission has adopted a rule that prohibits the Commission from paying or processing requests from parties that owe a debt to the Commission or its reporting components. For example, a regulated telecommunications carrier may be delinquent on its annual required regulatory fees. To prevent payments from being disbursed in violation of this Commission rule, the Commission's reporting components listed below check the Commission's "Red Light" database for parties that should not receive payment.

Every day Commission staff receive a list of the parties with outstanding bills. The red light status of those parties is updated in the Commission's Genesis system. If multiple parties share a Taxpayer ID number, they are all updated accordingly. Commission staff then creates a file with the latest data and sends that report to the reporting components. Finally, Commission staff updates the red light display system. Commission staff do not check the Commission's disbursements against the Red Light file as typically Commission vendors would not also be Commission or program debtors.

Table 7 – USF
Results of the Do Not Pay Initiative in Preventing Improper Payments
($ in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases	N/A	N/A	N/A	N/A	N/A	N/A
Reviews with databases not listed in IPERIA	81,298	$8,881.21	276	$36.84	N/A	N/A

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

Table 7 - NANP
Results of the Do Not Pay Initiative in Preventing Improper Payments
($ in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases	N/A	N/A	N/A	N/A	N/A	N/A
Reviews with databases not listed in IPERIA	See narrative below	See narrative below	See narrative below	See narrative below	See narrative below	See narrative below

Payments to NeuStar, Welch LLP, USAC, and Ernst & Young LLP are made when the FCC contracting officer approves the invoices for payment. Payments to NeuStar and Welch are made according to their respective contracts. Payments to USAC are paid when Welch LLP is invoiced. Ernst & Young LLP is paid as per quote. None of these payments are checked against the Red Light or the Do Not Pay lists. Welch, LLP does not check disbursements against the Do Not Pay databases because Welch cannot receive access to the databases because Welch is not a U.S. company. All refunds to contributors are checked against the Red Light List. Welch does not currently track the payments it does not disburse because the payee is on the Red Light List. The amount and value of those payments will vary from month to month.

Table 7 – TRS
Results of the Do Not Pay Initiative in Preventing Improper Payments
($ in millions)

	Number (#) of payments reviewed for possible improper payments	Dollars ($) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with the IPERIA specified databases	N/A	N/A	N/A	N/A	N/A	N/A
Reviews with databases not listed in IPERIA	607	$1,031.46	34	$0.13	0	$0.00

RL, the TRS Administrator, plans to integrate Do Not Pay into accounts receivable and accounts payable system modifications. Until then, RL will continue to consult the FCC's Red Light file to check for entities that owe the Commission money and therefore should not receive payments under FCC rules.

Office of Inspector General's Management and Performance Challenges

UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: October 20, 2016

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

FROM: Inspector General

SUBJECT: Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting the annual statement summarizing its assessment of the most serious management and performance challenges facing the Federal Communications Commission (FCC) in Fiscal Year 2016 and beyond. During its audits and investigations, OIG has worked with FCC managers in recommending actions that best address these challenges. Additional information on OIG audits and investigations can be found in the most recent Semiannual Reports to Congress.

Innovation and Information Security

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

The FCC must ensure that necessary personnel and processes are in place, and they are consistently improving information security controls. The FCC must strike an acceptable balance between the implementation of new technologies and a sustainable information security program that is in compliance with federal mandates. The FY 2016 FISMA evaluation disclosed that the FCC's information security program is still not in compliance FISMA requirements, related OMB guidance, and National Institute of Science and Technology (NIST) standards. As the Commission moves toward greater innovation, additional effort should be placed on addressing prior year IT findings and recommendations. The FY 2016 FISMA report identifies four significant deficiencies– risk management, contractor systems, identify and access management, and information security continuous monitoring– that are repeat or updated findings and recommendations from prior year reviews. We also reported these recommendations as significant open recommendations in our most recent Semiannual Report to Congress.

Universal Service Fund Programs

The Telecommunications Act of 1996 created the framework for the Universal Service Fund (USF or Fund), which consists of support mechanisms for: (l) providing financial support to eligible telecommunications carriers that serve high-cost areas; (2) assisting schools and libraries with telecommunications and internet services; (3) assisting low-income consumers obtain affordable telephone service; and (4) assisting rural health care providers with access to telecommunications and internet services. Under the direction of the Commission, the Fund is administered by the Universal Service Administrative Company. The Office of Inspector General has ongoing performance audits and is supporting investigations addressing allegations of fraudulent activity involving the Fund.

Within its strategic objective 3, Making Networks Work for Everyone, FCC has recognized the need to ensure that universal service programs keep up with changing technologies and are well managed, efficient and fiscally responsible. We have observed the Commission's efforts supporting this objective and believe comprehensive reforms in all of the USF programs, including implementation of the Connect America Fund will require a significant investment of Commission resources. Establishing direction and policy, managing transition, and ensuring that all USF program rules and regulations contribute to effective and efficient programs is a significant management challenge.

High Cost Program

The USF High Cost program provides $4.5 million annually to ensure that robust, affordable voice and broadband service, both fixed and mobile, are available to Americans throughout the nation. Under the USF ICC (Intercarrier Compensation) Transformation Order issued in 2011, and subsequent clarifying orders, the High Cost program is transitioning to support multi-purpose networks capable of broadband and voice, while phasing out support for voice-only networks. During this transition, the High Cost program will utilize separate support mechanisms for the legacy program and for the new Connect America Fund. The Connect America Fund will rely on incentive-based, market-driven policies utilizing methodologies such as competitive bidding, to distribute universal service funds in an efficient and effective manner. Ensuring the reforms have their intended effect and continuing to resolve outstanding investigations remain significant management and performance challenges.

Schools and Libraries Program

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

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

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

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

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

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

Lifeline Program

The Lifeline program continues to require significant OIG resources– audit and investigative– to combat waste, fraud and abuse. The USF Lifeline program was established in 1985 to ensure that low-income consumers have access to affordable wireline phone service. In 2008, the program was expanded to provide support for wireless phone service. In 2015, the Commission disbursed about $1.5 billion in Lifeline support to over 13 million low-income households.

Although the Commission comprehensively reformed the Lifeline program in 2012 to require stricter oversight, including promulgating changes to the ways service providers must confirm consumer eligibility for Lifeline program support, many of these reforms have not yet been fully implemented. Moreover, in recent years, reports of fraud (largely involving the provision of service to ineligible individuals or the provision of multiple phones to eligible consumers) have increased significantly. Multiple federal criminal cases have been filed and several have resulted in guilty pleas. We believe that ensuring Lifeline program reforms have their intended effect and continuing to resolve outstanding investigations remain significant management and performance challenges.

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

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

Office of the Managing Director

DATE: November 14, 2016

TO: David L. Hunt, Inspector General

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

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

Management appreciates the Office of the Inspector General's (OIG) memorandum, dated October 20, 2016, assessing the most serious management challenges facing the Federal Communications Commission (FCC or Commission) for fiscal year (FY) 2016 and beyond.

Innovation and Information Security

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

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

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

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

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

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

APMD: In FY 2016, the FCC has:

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

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

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

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

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

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

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

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

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

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

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

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

Universal Service Programs

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

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

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

- Expansion and intensification of efforts to identify, reduce, and recapture improper payments, consistent with the Improper Payments Elimination and Recovery Improvement Act (IPERIA) and OMB Guidance. First, the Commission expanded the number of procedures assessed as part of USF testing for improper payments. Second, the Commission developed a new audit plan that directs USAC to increase the focus of audit resources on those recipients with higher disbursements and elevated risks, and increases the dollar amounts reviewed in the audits.

- In July 2014, the Commission announced the creation of the Universal Service Fund Strike Force, which is housed in the agency's Enforcement Bureau (EB). The USF Strike Force is focused on safeguarding the USF. Since its creation, the Strike Force has initiated multiple investigations, brought enforcement actions, negotiated settlements, referred potential USF criminal misconduct to the Department of Justice (DOJ), supported DOJ fraud prosecutions, and coordinated joint activities with the FCC's Inspector General.

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

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

<u>High-Cost:</u> In its Memorandum, OIG reports that, "[t]he Connect America Fund will rely on incentive-based, market driven polices, utilizing methodologies such as competitive bidding, to distribute universal service funds in an efficient and effective manner." In doing so, OIG states "ensuring the reforms have their intended effect and continuing to resolve outstanding investigations remain significant management and performance challenges." The Commission continues to take action to address the implementation of reforms to the high-cost program and remains committed to resolving investigations. These actions are summarized below.

- In October 2015, the Commission reminded eligible telecommunications carriers (ETCs) that they may not include certain types of expenses in their revenue requirement or recover them through high-cost support. Those expenses include the following: personal travel; entertainment; alcohol; food, including but not limited to meals to celebrate personal events, such as weddings, births, or retirements; political contributions; charitable donations; scholarships; penalties or fines for statutory or regulatory violations; penalties or fees for any late payments on debt, loans, or other payments; membership fees and dues in clubs and organizations; sponsorships of conferences or community events; gifts to employees; and, personal expenses of employees, board members, family members of employees and board members, contractors, or any other individuals affiliated with the ETC, including but not limited to personal expenses for housing, such as rent or mortgages. The Commission also noted that it intends to take further action to prevent excessive expenditures.

- In March 2016, following extensive collaboration with rate-of-return stakeholders, the Commission approved an order establishing a new mechanism for the distribution of support in rate-of-return areas that gives rural carriers two paths, described below, for receiving broadband-oriented support.

    - Under one option, rate-of-return carriers may elect to receive model-based support, calculated using the Alternative Connect America Cost Model (A-CAM), for a term of 10 years in exchange for meeting defined build-out obligations. After conducting a challenge process to eliminate census blocks served by an unsubsidized competitor, the Bureau completed A-CAM and announced the offer of model-based support on August 3, 2016. Carriers had until November 1, 2016 to indicate, on a state-by-state basis, whether they elect to receive model-based support.

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

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

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

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

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

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

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

- The Commission continues to implement Mobility Fund established as part of the Connect America Fund in the *USF/ICC Transformation Order*. Phase I of the Mobility Fund will provide up to $350 million in USF high-cost universal service support to fund, on a one-time basis, the expansion of current-generation wireless services. Initial Mobility Fund Phase I support was awarded through a nationwide reverse auction held in September 2012, in which the winning bidders were eligible to receive a total of up to $299,998,632 in support awarded based on the lowest per-unit bid amounts. Auction 901 winning bidders were required to submit post-auction "long-form" applications by November 5, 2012. Since April 2013, the Wireless Telecommunications and Wireline Competition Bureaus have authorized initial disbursements for over $270 million in winning bids, and announced over $29 million in auction defaults. Of the authorized winning bids, eight winning bidders subsequently defaulted on their performance obligations for bids totaling over $63 million.

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

- Mobility Fund Phase I was designed as a performance-based program under which USF support is conditioned upon the recipient's compliance with its performance obligations. In adopting rules for Mobility Fund Phase I, the Commission decided that it would require recipients of Mobility Fund support to provide an irrevocable stand-by letter of credit as financial security to secure the return of the USF funds disbursed if the recipient fails to fulfill its obligations. The Letter of Credit is required to be in an amount equal to the amount of support received plus an additional percentage of the amount of support as a performance default payment. Support payments are provided in three installments. Each party receiving support will be eligible to receive from USAC a disbursement of one-third of the total amount of support once its application for support is granted. A party will receive the remainder of its support after filing with USAC a report with the required data that demonstrates that it has met its performance requirements. Additionally, the Commission remains committed to resolving investigations into compliance with the Commission's rules for determining high-cost support.

- USAC issues monthly newsletters that provide important developments from FCC Orders, industry highlights, tips on how to avoid common audit findings, as well as encourage carriers to review FCC rules and orders for compliance. USAC holds webinars to assist beneficiaries with program compliance related to FCC Forms 481 and 690. In addition, USAC has created videos, frequently asked questions (FAQs), and user guides to help beneficiaries with Form 481 and 690 compliance.

- USAC created a dedicated website page that references rules established by orders, such as specific direction regarding documentation requirements, including the 10-year retention requirement. Going forward, both the website and newsletters will reference specific Rules and Regulations concerning systems for collecting, reporting and monitoring data and provide guidance regarding steps carriers can take to ensure accuracy of data and form submissions. For example, these references address the top audit findings and provide preventive measures and resources so that beneficiaries can avoid these audit findings.

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

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

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

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

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

- Contingent fee arrangements on consultant contracts.

OIG, therefore, states that "accomplishing the Commission's strategic objective to ensure that all schools and libraries have affordable access to modern broadband technologies through a well-managed, efficient and fiscally responsible E-rate program is a significant management challenge." We recognize these challenges and are pleased to report the strides made by the Commission to address these issues and other challenges as it continues to modernize the E-rate program. These actions are summarized below.

<u>Service providers continue to bill the USF for ineligible services and facilities.</u>

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

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

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

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

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

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

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

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

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

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

- The Commission adopted district-wide discount rates in the *First E-rate Modernization Order*, which reduces the likelihood of waste, fraud, and abuse in calculating discount rates because the classification of a small sample of students is less likely to affect an applicant's discount rate. The Commission's *Second 2014 E-rate Modernization Order* directed USAC to establish a robust performance management system to further improve the overall effectiveness and efficiency of the E-rate program. The components of this performance management system include, among other things, simplifying the calculation of discount rates to enable applicants to more easily manage the discount calculation process in advance of the E-rate application filing window. Further enhancements of this part of the E-rate application process are under development. However, applicants do currently file discount rate information in USAC's portal as part of their applicant profile. USAC's online portal enables the retention of user information, including applicant discount information, year-to-year, to help reduce or prevent user error. The system and applicant funding request forms also have built in logic designed to prevent entry of inaccurate information. To the extent inaccurate information is presented, applicants have the opportunity to provide a true-up of the information. Applicant discount and entity information is checked against related applications for consistency and reviewed as part of USAC's program integrity assurance program.

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

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

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

Contingent fee arrangements on consultant contracts.

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

Additional related initiatives.

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

- USAC conducts extensive outreach activities to help participants successfully participate in the E-rate program. USAC hired a Director of Stakeholder Engagement for the E-rate program to ensure that the outreach efforts address issues identified through application reviews, invoice processing, and audits with the goal of increasing participants' knowledge of and compliance with program rules. Specifically, USAC conducts applicant and service provider E-rate program trainings in the form of video-conferences, as well as in-person trainings, and conducts monthly E-rate stakeholder conference calls. In addition, outreach materials are published in the form of electronic and printed materials, including a weekly News Brief, which are provided to applicants and service providers and are posted to USAC's website along with online learning tools. Finally, USAC conducts one-on-one guidance through its HATS (Helping Applicants to Succeed) program which is designed to assess how USAC's processes work from the perspective of an applicant with the goal of providing guidance that is tailored to solve an applicant's specific challenges.

- USAC conducts an extensive pre-commitment review of applications, called the Program Integrity Assurance (PIA) process. The PIA process includes internal control activities designed to help ensure that commitments are only for eligible entities, products and services to help prevent improper payments. The PIA procedures are reviewed annually by USAC and the Commission to improve and simplify the application review process and ensure compliance with FCC Orders. The results of audit findings are considered during the PIA procedure review process in an effort to improve program compliance.

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

<u>Lifeline:</u> In its Memorandum, OIG states the Lifeline program continues to require significant OIG resources-audit and investigative-to combat waste, fraud and abuse. Further, despite the Commission's comprehensive reform to the program over the past several years, these reforms have yet to be fully implemented. OIG also raises concern of increases in fraud reports over the past few years and criminal cases concerning the Lifeline program. As such, OIG emphasizes that ensuring Lifeline program reforms have their intended effect and continuing to resolve outstanding investigations remain significant management and performance challenges. We recognize these challenges and are pleased to report the strides made by the Commission to address these issues and other challenges as it continues to reform the Lifeline program. These actions are summarized below.

- In June 2015, the Commission adopted the *Second Further Notice of Proposed Rulemaking* (FNPRM), *Order on Reconsideration, Second Report and Order, and Memorandum Opinion and Order* (collectively, "*2015/2016 Lifeline Orders*") which requires ETCs to retain documentation of consumer Lifeline eligibility, clarifying the term former reservations in Oklahoma to better target enhanced Tribal Lifeline support to Tribal areas, and ensuring transparency in program funds by rejecting a request for confidential treatment of provider de-enrollment information. Further, the Commission adopted a snapshot date rule requiring Lifeline providers to calculate the number of subscribers it is providing Lifeline service based on the first day of the month and must retain the information for their record. This enables USAC to compare the number of subscribers served on the snapshot date to the subscribers included within the National Lifeline Accountability Database (NLAD) to determine whether there are discrepancies. If so, USAC can investigate further.

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

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

- The available metrics indicate that reforms are having a tangible impact on waste, fraud and abuse in the program. For example, disbursements continue to decrease year-over-year, from a high of nearly $2.2 billion in 2012 to approximately $1.5 billion in 2015, In addition, de-enrollments for recertification and non-usage have declined year-over-year, suggesting that consumers are becoming more familiar with the rules of the program and the benefit is reaching those consumers who truly value the service.

- In its ongoing efforts to safeguard USF programs and to deter improper payments, the Commission's Enforcement Bureau has undertaken several investigations involving carrier compliance with federal Lifeline program rules.

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

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

- USAC continues to maintain the NLAD to prevent duplicate benefits. USAC uses an iterative process to perform analysis of existing subscribers to identify any unusual trends that might indicate a duplicate subscriber, performs research and clean-up, and then modifies the system to prevent issues going forward. Current research in progress includes the inconsistent use of a suffix (Jr., Sr., III) which may give the appearance of two different last names for a single individual. USAC is also conducting additional data reviews of NLAD where multiple subscribers reside at a single address that does not appear to be associated with a group housing facility (*e.g*., homeless shelters).

- In addition to duplicate detection, USAC performs data analysis on other anomalies in subscribership trends that require further attention to ensure compliance. USAC recently worked with carriers who had subscribers that were suspected to be deceased, resulting in de-enrollment of 125 out of 177 reviewed subscribers. USAC also performed a review of carriers who have entered phone numbers in NLAD that are not consistent with acceptable North American Numbering Plan formats and notified carriers where such records appeared to be incorrectly entered into NLAD. USAC continues to seek opportunities to enhance NLAD's system controls, including enhancing system controls to prevent and detect duplicate subscribers. USAC improved the NLAD system on February 2, 2015 to eliminate certain initiated dispute resolution processes and on March 25, 2015 to add additional rigor to the duplicate checking algorithm in NLAD. Upon the implementation of these changes USAC scrubbed all NLAD records to identify and remove additional duplicates. This process was completed in May 2015 and resulted in the de-enrollment of approximately 374,000 subscribers.

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

  - Monthly webinars for NLAD users.
  - Bi-weekly newsletter highlighting various program news and rules.
  - Ad hoc email bulletins for important announcements.
  - Training webinars for key events or system use such as the annual Form 555.
  - Updates to website content for key Lifeline information and administrative matters.
  - Individual outreach for unusual Form 497 filings and auditee support.
  - Participation in relevant conferences or industry events.

- USAC has developed a strategic approach to evaluating the root cause of audit findings and developing additional processes to prevent these common errors. For Lifeline, this will include, but not be limited to, the following activities:

  - Updating form filing systems to remind carriers of required documentation requirements. Leveraging the bi-weekly newsletter throughout the year to provide relevant information on key Lifeline processes that result in common mistakes, i.e., focus on recertification before the peak processing period when it would be most helpful to carriers.

- Enhancing the existing USAC website information on common audit findings to ensure compliance.

- Developing additional training tools such as online videos and quizzes for carriers to test their understanding of program requirements.

- USAC notifies the EB, OIG, and state commissions of potential issues that may require their attention.

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

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

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

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

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

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Schedule of Civil Monetary Penalties

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

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

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

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

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

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

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