

**Audit of Federal Communications
Commission's FY 2023 Financial Statements**

Report Number

23-AUD-06-01



November 15, 2023

Federal Communications
Commission FY 2023 Financial
Statements Audit

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Transmittal from Office of Inspector General



UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 15, 2023

TO: Chairwoman

FROM: Acting Inspector General *Sharon R. Diskin*

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

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements***Opinion***

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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



relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FCC's internal control. Accordingly, no such opinion is expressed
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the FCC's ability to continue as a going concern for a reasonable period of time beyond the financial statement date.



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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and Schedule of Budgetary Resources by Major Account and Land, and other RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance *Government Auditing Standards*, which consisted of inquiries of management regarding the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01, we have also issued reports, dated November 15, 2023, on our consideration of the FCC's internal control over financial reporting and on our tests of the FCC's compliance with provisions of applicable laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2023. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other



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

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

Alexandria, Virginia
November 15, 2023

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2023 and the related notes to the financial statements, which collectively comprise the FCC's financial statements, and we have issued our report thereon dated November 15, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the FCC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FCC's internal control. Accordingly, we do not express an opinion on the effectiveness of the FCC's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 24-01. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

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

The Federal Communication Commission's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the FCC's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Commission's Responses to Independent Auditor's Reports section of the Agency Financial Report (AFR). The FCC concurred with the findings identified in our engagement. The FCC's response was not subjected to the other auditing procedures applied in the audit of the financial statements; accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the FCC's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01 in considering the entity's internal control. Accordingly, this report is not suitable for any other purpose.



Alexandria, Virginia
November 15, 2023

Schedule of Findings

Significant Deficiencies

I. Information Technology (Modified Repeat Condition)

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

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

Kearney performed this work in accordance with the Government Accountability Office’s (GAO) Federal Information System Controls Audit Manual (FISCAM). Many of the IT control areas of FISMA overlap with those in FISCAM, such as Risk Management, Access Controls, Configuration Management, and Information Security Continuous Monitoring (ISCM). Other IT controls areas are unique to FISCAM due to their relevance to financial management and reporting, such as Segregation of Duties and Application Controls.

Additionally, we performed risk-based procedures related to the core financial management system utilized by USAC to administer the USF programs, the Financial Operations System (FOS), as well as USAC’s Schools and Libraries (S&L) account and application management system, E-Rate Productivity Center (EPC). Similar to the FCC, USAC’s general IT support system is the gateway for users to access USAC’s FOS. Our *Fiscal Year (FY) 2023 FISMA Evaluation Report* includes detailed information for each identified finding.

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

- **FCC General IT Support System:** The FY 2023 FCC FISMA evaluation identified deficiencies in multiple IT control areas that impacted the FCC’s general IT support system, including Risk Management, Identity and Access Management, Configuration Management, and ISCM. Most notably, the FCC did not enforce the use of Personal Identity Verification (PIV) credentials as a dual-factor authentication mechanism for

logical access, nor did it consistently remediate identified network vulnerabilities within the timeframes required by FCC policy. Additionally, the FCC did not effectively implement the Risk Management Framework (RMF) for all information systems, nor did the FCC properly manage user accounts with access to the FCC's network. Further, the FCC did not complete efforts to ensure compliance with the established Center for Internet Security (CIS) benchmarks for baseline configurations, nor did it consistently ensure all changes to the FCC's general IT support system were appropriately classified and approved prior to implementation

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

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

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

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

II. Accounting Treatment Related to Withheld Payments (New)

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

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

A. Affordable Connectivity Program Withheld Payments Accounting Treatment

Background: On November 15, 2021, the Affordable Connectivity Program (ACP) was enacted by the Infrastructure Investment and Jobs Act of 2021 as a longer-term replacement program to

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

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

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

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

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

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

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

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

B. High Cost Support Withheld Payments Accounting Treatment

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

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

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

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

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

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

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

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

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

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

* * * * *

APPENDIX A: STATUS OF PRIOR-YEAR DEFICIENCIES

In the *Independent Auditor’s Report on Internal Control over Financial Reporting*, included in the audit report on the Federal Communications Commission’s (FCC) fiscal year (FY) 2022 financial statements,¹ we noted one reportable finding. The status of the FY 2022 internal control findings is summarized in *Exhibit 1*.

Exhibit 1: Status of Prior-Year Findings

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

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

Exhibit 2: Status of Prior-Year Recommendations

Related Control Deficiency	Recommendation Description	FY 2023 Status
Information Technology²	Kearney issued 21 information technology (IT)-related recommendations in FY 2022	16 open; Five closed

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

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, the financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the FCC's basic financial statements, and we have issued our report thereon dated November 15, 2023.

Report on Compliance and Other Matters

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

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



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 24-01. Accordingly, this communication is not suitable for any other purpose.

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

Alexandria, Virginia
November 15, 2023



UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSON

Office of the Managing Director

DATE: November 15, 2023
TO: Sharon Diskin, Acting Inspector General
FROM: Mark Stephens, Managing Director
Jae Seong, Chief Financial Officer
Allen Hill, Chief Information Officer
SUBJECT: Management’s Response to Independent Auditor’s Reports on Internal Control over Financial Reporting and Compliance with Laws, Regulations, Contracts, and Grant Agreements for Fiscal Year 2023

Thank you for the opportunity to review and comment on the draft reports entitled *Independent Auditor’s Report on Internal Control over Financial Reporting and Independent Auditor’s Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements*. As always, the Federal Communications Commission (FCC or Commission) appreciates the efforts of the Office of Inspector General and its independent auditor, Kearney & Company, to work with the FCC throughout the annual financial statement audit process.

We are pleased that, for the eighteenth straight year, the independent auditor provided an unmodified (“clean”) opinion and found that the Commission’s consolidated financial statements for Fiscal Year (FY) 2023 present fairly, in all material respects, the financial position of the Commission as of September 30, 2023. In addition, the results of the audit tests disclosed no instances of noncompliance or other matters that are required to be reported.

Despite this successful outcome, work remains here at the Commission. The FY 2023 audit report identified a repeat significant deficiency related to information technology controls and a new significant deficiency related to a funding hold and classification of withheld payments. We concur with the recommendations made by the independent auditors in their reports.

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

MARK STEPHENS
Digitally signed by MARK STEPHENS
Date: 2023.11.15 08:36:46 -0500
Mark Stephens
Managing Director
Office of Managing Director

JAE SEONG
Digitally signed by JAE SEONG
Date: 2023.11.15 05:49:25 -0500
Jae Seong
Chief Financial Officer
Office of Managing Director

ALLEN HILL
Digitally signed by ALLEN HILL
Date: 2023.11.15 07:13:14 -0500
Allen Hill
Chief Information Officer
Office of Managing Director

For information on FCC Financial Statements, Notes and Supplemental Information, please refer to the link <https://www.fcc.gov/sites/default/files/FCC-Agency-Financial-Report-FY-2023-508.pdf>