

ONE HUNDRED THIRTEENTH CONGRESS  
**Congress of the United States**  
**House of Representatives**  
COMMITTEE ON ENERGY AND COMMERCE  
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**MEMORANDUM**

**September 15, 2014**

**To: Subcommittee on Communications and Technology Democratic Members and Staff**

**Fr: Committee on Energy and Commerce Democratic Staff**

**Re: Subcommittee Hearing on “The Budget and Spending of the Federal Communications Commission”**

On Wednesday, September 17, 2014, at 10:15 a.m. in room 2123 of the Rayburn House Office Building, the Subcommittee on Communications and Technology will hold a hearing titled “Oversight of FCC Budget and Management.” In addition to providing a general overview of the FCC’s budget and operation, the hearing will examine the recent efforts of the FCC’s Office of Inspector General (IG) to prevent waste, fraud, and abuse.

**I. OVERVIEW OF FCC BUDGET AND OPERATION**

Congress has not formally authorized the FCC since 1990.<sup>1</sup> The Commission primarily derives its funding from regulatory fees that it collects, not from direct appropriation. The FCC collects these fees from FCC license holders, as well as from other regulated entities, such as multichannel video programming distributors. The FCC retains the fees to offset its costs. These costs may be adjusted based on the level of permissible agency salaries and expenses, as provided by annual appropriations bills.<sup>2</sup> The FY 2014 budget provided \$339.84 million for the Commission, the same level as FY 2013, but \$16.8 million less than FY 2011.<sup>3</sup> The Commission was separately allowed to retain \$98.7 million from spectrum auction proceeds.

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<sup>1</sup> Pub. L. No. 101-396 (1990).

<sup>2</sup> Pub. L. No. 103-66 (1993).

<sup>3</sup> Federal Communications Commission, *Fiscal Year 2015 Budget Estimates Submitted to Congress* (Mar. 2014). *See also* Pub. L. No. 112-74 (2012). Note that for FY 2013, the FCC received a \$17 million reduction due to sequestration.

The Government Performance and Results Act requires agencies to produce five-year strategic plans.<sup>4</sup> The Commission uses these plans as a framework to determine its annual performance plans and budget requests. In February 2012, the FCC released its most recent strategic plan, which outlined goals and objectives for 2012-2016.<sup>5</sup> The strategic plan included the following goals: (1) maximize Americans' access to broadband connectivity; (2) maximize overall benefits of spectrum; (3) protect and empower consumers with tools and information to make informed choices in the communications market; (4) promote innovation and investment; (5) ensure a competitive market for communications and media services and foster job creation; (6) promote and support the availability of critical communications infrastructure; (7) advance key national purposes through international and national interagency efforts; and (8) effectively manage the Commission's human, information, and financial resources.<sup>6</sup>

On March 4, 2014, the FCC submitted a budget request of \$375.38 million for FY 2015.<sup>7</sup> The Commission would use the bulk of its requested budget increase to modernize its aging information technology (IT) systems. In doing so, the Commission would incorporate a bottom-up, open standard, and modular computing platform that is capable of functioning across the FCC's Bureaus and Offices. The FCC expects this investment to lead to a more secure, manageable, and sustainable framework that will ultimately reduce costs and enhance reliability.<sup>8</sup> The Commission would also use the budget increase to: (1) heighten its oversight and enforcement of the newly-reformed Universal Service Fund (USF) programs; (2) provide redundancy for its most important mission-critical systems; (3) create a Do-Not-Call registry for Public Safety Answering Points (PSAPs), as required by the Public Safety and Spectrum Act of 2012; (4) maintain its broadband map; (5) increase the size of its IT support staff; and (6) strengthen its ability to conduct cyber threat analysis.

On the same date, the FCC also released its Annual Performance Report for FY 2013, as required under the Communications Act.<sup>9</sup> The report detailed the Commission's efforts to meet its FY 2013 performance goals, including goals to maximize broadband availability and adoption, develop and implement policies that support efficient use of spectrum and market-oriented spectrum allocation and assignment, swift and consistent use of the Commission's enforcement authority to protect consumers, ensure effective policies are in place to promote and

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<sup>4</sup> Pub. L. No. 103-62 (1993).

<sup>5</sup> Federal Communications Commission, *Strategic Plan 2012-2016* (online at [apps.fcc.gov/edocs\\_public/attachmatch/DOC-312420A1.doc](http://apps.fcc.gov/edocs_public/attachmatch/DOC-312420A1.doc)) (accessed Sept. 12, 2014).

<sup>6</sup> *Id.*

<sup>7</sup> Federal Communications Commission, *Fiscal Year 2015 Budget Estimates Submitted to Congress* (Mar. 2014).

<sup>8</sup> *Id.*

<sup>9</sup> Pub. L. No. 103-66 (1993).

protect competition, and strengthen measures for protecting the nation's critical communications infrastructure, among other Commission goals.<sup>10</sup>

## II. FCC OFFICE OF INSPECTOR GENERAL

The Office of Inspector General (IG) was established in 1989.<sup>11</sup> Pursuant to the Inspector General Act of 1978, the IG has the authority to conduct independent investigations, audits, and reviews of the FCC's programs and operations; obtain all records, reports, audits, reviews, recommendations, and other materials that relate to FCC programs and operations; and issue subpoenas to obtain documents from outside the Federal government.<sup>12</sup> The IG also submits semi-annual reports to the Chairman of the FCC and Congress, recommending corrective action where appropriate.<sup>13</sup>

Over the past year, the IG investigated fraudulent activity related to the FCC's Lifeline program, which subsidizes wireless service for qualifying low-income customers. These investigations led to indictments and tens of millions of dollars in forfeitures.<sup>14</sup> The IG also investigated alleged fraud in the FCC's Telecommunications Relay Service (TRS) Fund program. According to the IG's most recent Semiannual Report to Congress, which covers the period between October 1, 2013 and March 31, 2014, the IG closed 29 cases and opened 18 cases, with a total of 73 cases pending.<sup>15</sup>

On April 29, 2014, the IG released a final report on its audit of the FCC's FY 2012 administrative operations, finding that the FCC generally complied with relevant directives, policies, and procedures, as well as applicable contract terms with vendors.<sup>16</sup> On December 13, 2013, the IG released its audit of the FCC's FY 2013 consolidated financial statements, which present the FCC's financial results, including the Universal Service Fund, the TRS Fund, and the

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<sup>10</sup> Federal Communications Commission, *Fiscal Year 2013 Annual Performance Report* (online at [fcc.gov/document/fy-2013-fcc-annual-performance-plan](http://fcc.gov/document/fy-2013-fcc-annual-performance-plan)) (accessed Sept. 12, 2014).

<sup>11</sup> Federal Communications Commission Office of Inspector General, *Home Page* (online at [fcc.gov/office-inspector-general](http://fcc.gov/office-inspector-general)) (accessed Sept. 12, 2014).

<sup>12</sup> 5 U.S.C. App. 3, § 6.

<sup>13</sup> *Id.* at § 5.

<sup>14</sup> Federal Communications Commission Office of Inspector General, *What's New* (online at [fcc.gov/encyclopedia/office-inspector-general-news-press-releases-and-peer-review-report](http://fcc.gov/encyclopedia/office-inspector-general-news-press-releases-and-peer-review-report)) (accessed Sept. 12, 2014).

<sup>15</sup> Federal Communications Commission Office of Inspector General, *Semi-Annual Report to Congress for the period October 1, 2013 – March 31, 2014* (Mar. 31, 2014) (online at [transition.fcc.gov/oig/FCC\\_OIG\\_SAR\\_03312014.pdf](http://transition.fcc.gov/oig/FCC_OIG_SAR_03312014.pdf)).

<sup>16</sup> Federal Communications Commission Office of Inspector General, *Audit of the Federal Communications Commission Administrative Operations FY2012* (Apr. 29, 2014) (online at [transition.fcc.gov/oig/FCC\\_AO\\_Audit\\_Rpt\\_and\\_Transmittal\\_Memo\\_042914.pdf](http://transition.fcc.gov/oig/FCC_AO_Audit_Rpt_and_Transmittal_Memo_042914.pdf)).

North American Numbering Plan.<sup>17</sup> The audit indicated that the FCC fairly presented its financial statements and that there were no major weaknesses in internal controls. However, it noted minor deficiencies related to both the functionality of the FCC's financial system and its integration and information technology control.<sup>18</sup> Further, due to the FCC's deficiencies in its financial system integration standards, the audit found that the Commission did not comply with the Federal Managers' Financial Integrity Act and the Debt Collection Improvement Act.<sup>19</sup> The IG notes that financial statement auditors have reported these deficiencies since FY 2005.

The IG's most recent performance audit focused on a number of areas, including audits of the FCC's debt collection efforts and its management practices for initiating, tracking, and collecting civil monetary penalties. The IG is continuing to conduct audits related to funds that were paid to five Video Relay Service providers in 2012, the TRS Fund Administrator, the FCC's management and protection of information associated with social media, and more general audits of the Wireline Competition Bureau and the Public Safety and Homeland Security Bureau.<sup>20</sup>

### **III. WITNESSES**

The following witnesses have been invited to testify:

**Jon Wilkins**

Managing Director  
Federal Communications Commission

**David L. Hunt**

Inspector General  
Federal Communications Commission

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<sup>17</sup> Letter from Inspector General, Federal Communications Commission, to Chairman, Federal Communications Commission (Dec. 13, 2013).

<sup>18</sup> KPMG, LLP, *Independent Auditors' Report* (Dec. 13, 2013).

<sup>19</sup> *Id.*

<sup>20</sup> Federal Communications Commission Office of Inspector General, *Semi-Annual Report to Congress for the period October 1, 2013 – March 31, 2014* (Mar. 31, 2014) (online at [transition.fcc.gov/oig/FCC\\_OIG\\_SAR\\_03312014.pdf](http://transition.fcc.gov/oig/FCC_OIG_SAR_03312014.pdf)).