FEDERAL COMMUNICATIONS COMMISSION

Fiscal Year 2005
Performance and Accountability Report

(October 1, 2004 – September 30, 2005)

Contents

Message from the Chairman

It is my great pleasure to present the Federal Communications Commission's (Commission's) Fiscal Year 2005 Performance and Accountability Report. This report combines the Commission's performance and financial reporting in one document.

We are working hard to promote the deployment of broadband services, deregulate where competition exists, enhance public safety and homeland security, ensure the viability of the Universal Service Fund, promote the efficient use of spectrum, and review media regulation to foster competition and diversity. We are also developing plans to ensure the Commission has the tools and training necessary to accomplish our goals and mission. The attached report highlights the Commission's efforts to meet our six goals: Broadband, Competition, Spectrum, Media, Public Safety and Homeland Security, and Modernize the Commission. I am very proud of our efforts to date and look forward to further improvement.

As I have said in the past, it is important that the Commission adhere to strong accounting and financial management practices and procedures. In this year's financial statements audit, the outside auditor identified a number of repeat findings and conditions, problems that have been plaguing the Commission's operations for some time. For example, the auditor identified continuing problems with the Commission's reporting components responsible for administering the Universal Service Fund (USF) and the Telecommunications Relay Service (TRS) fund. It is important that we identify and address these issues as quickly as possible so that the Congress and the public can maintain confidence in the Commission's financial management practices. Also this year, the outside auditor declined to provide an opinion over the Commission's financial statements. Management cooperated fully with the outside auditor, and will continue to do so in future audits. Midway through this fiscal year, however, the outside auditor requested that we deviate from a long-established practice governing which Commission officials sign a "management representation letter." Although we continued to follow the established practice governing the Commission's management representation letter – a practice accepted by the same outside auditor in every previous audit – and provided the necessary documentation, the auditor determined that this year the established practice would not provide sufficient "evidential matter." As a result, the auditor explains in its report that it cannot provide an opinion on the Commission's financial statements this year.

This report includes information that satisfies the reporting requirements of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. Except for the material weaknesses and instances noted of non-conformance with laws and regulations, specifically identified in this report (see pages 22-26), the Commission's management controls and financial systems are in compliance with the provisions of FMFIA. In addition, except for the material weaknesses noted in this report and the data limitations noted in the Performance Details section, the financial and performance data included in this report are complete and reliable.

Kevin J. Martin
Chairman

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1. Management's Discussion and Analysis

Overview of the FCC

INTRODUCTION

This Performance and Accountability Report (PAR or report) contains management, performance, and financial information about the Federal Communications Commission (FCC, Commission, or agency).

Chapter 1 presents the Management's Discussion and Analysis, including: the FCC's mission; an overview of the agency's reporting structure; Fiscal Year (FY) 2005 performance and financial highlights; descriptions of legal compliance, systems, and controls; summary information related to the Federal Manager's Financial Integrity Act material weaknesses and instances noted of non-conformance and related corrective actions; and potential future issues that could affect the FCC.

Chapter 2 contains the annual program performance report, while Chapter 3 presents the FCC's principal financial statements for FY 2005, notes to the consolidated financial statements, and required supplementary information. Appendix A contains a glossary of acronyms used in this report.

This PAR is a guide to key FCC initiatives and activities for FY 2005, or planned for future years, that depict the breadth of the Commission's work. An electronic version of the FY 2005 PAR can be found on FCC's website at: http://www.fcc.gov/omd/strategicplan/.

ABOUT THE FCC

The Commission is an independent United States (U.S.) Government regulatory agency. The FCC was established by the Communications Act of 1934, as amended (the Act) and is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The FCC also regulates intrastate telecommunications services for hearing-impaired and speech-impaired individuals, as set forth in Title IV of the Americans with Disabilities Act (ADA). The FCC's headquarters is located in Washington, D.C., with three regional offices, sixteen district offices, and nine resident agent offices throughout the nation. The FCC's jurisdiction spans the 50 states, the District of Columbia, and U.S. possessions.

The FCC is directed by five commissioners, appointed by the President and confirmed by the Senate for five-year terms, except when filling an unexpired term. The President designates one of the commissioners to serve as chairman. Commissioners may not hold a financial interest in any company or entity that has a significant interest in activities regulated by the Commission.

FCC MISSION

The FCC's mission is to ensure that Americans have access to rapid, efficient, nation- and world-wide communication services, whether by radio, television, wire, satellite, or cable, at reasonable costs and without discrimination.[1]

FCC REPORTING COMPONENTS

The FCC chairman leads the Commission as head of the agency. The commissioners supervise all FCC activities, delegating responsibilities to the agency's bureaus and staff offices.

Six operating bureaus and ten offices implement the Commission's six strategic goals

Consumer & Governmental Affairs Bureau,
Enforcement Bureau,
International Bureau,
Media Bureau,
Wireless Telecommunications Bureau,
Wireline Competition Bureau,
Office of Administrative Law Judges,
Office of Communications Business Opportunities,
Office of Engineering and Technology,
Office of General Counsel,
Office of Inspector General,
Office of Legislative Affairs,
Office of Managing Director,
Office of Media Relations,
Office of Strategic Planning and Policy Analysis, and
Office of Workplace Diversity.

These bureaus and offices develop and implement regulatory programs, process applications for licenses or other filings, analyze complaints, conduct investigations, and participate in FCC hearings.

Detailed information on specific bureau and office responsibilities and the FCC's organizational chart can be found on the FCC's website at: http://www.fcc.gov/.

Components of the FCC for Financial Statement Purposes

In addition to the activities directly undertaken by the above bureaus and offices, the FCC components for financial statement purposes include:

Universal Service Fund (USF) - The Telecommunications Act of 1996 (the Telecommunications Act) codified and modified the FCC's longstanding policy of promoting universal telecommunications service throughout the nation. Pursuant to section 254 of the Telecommunications Act,[2] the FCC established rules and regulations governing how certain telecommunications service providers contribute to the USF and how those monies are disbursed.

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[1] FCC FY 2003-2008 Strategic Plan, Page 4, 47 U.S.C. §151 – Title, Section 1 of the Act, as amended.
[2] 47 U.S.C. § 254.

For budgetary purposes, the USF comprises five elements, four universal service support mechanisms and the Telecommunications Relay Service (TRS) Fund. The TRS Fund represents a program established under the Communications Act of 1934, as amended by the Americans with Disabilities Act (ADA), to support relay services necessary for telecommunications access by speech or hearing impaired populations. 47 U.S.C. Section 225.

In past years the universal service support mechanisms have operated on a different fiscal year from other FCC programs – from January 1 to December 31. In FY 2005, the universal support mechanisms will utilize the same fiscal year as the FCC – October 1 to September 30.

The Universal Service Administrative Company (USAC) administers the four universal service support mechanisms of the USF, under the FCC's direction. These support mechanisms are funded through mandatory payments from U.S. telecommunications providers, including local and long distance phone companies, wireless and paging companies, and payphone providers. The four universal service support mechanisms are: high cost, low income, rural health care, and schools and libraries. These support mechanisms provide money directly to service providers to defray the cost of serving customers who use the telecommunications services. Additional information on the USAC and the USF, respectively, can be found on the Internet at: http://www.universalservice.org/default.asp
and http://www.fcc.gov/wcb/universal_service/welcome.html.

The National Exchange Carriers Association (NECA) administers the TRS Fund, under the FCC's direction. The TRS Fund compensates TRS providers for the reasonable costs of providing interstate telephone transmission services that enable a person with a hearing or speech disability to communicate with a person without hearing or speech disabilities. The costs of providing interstate TRS are recovered from subscribers of interstate telecommunications services through shared-funding cost recovery mechanisms. The TRS operates on a different fiscal year from other FCC programs; TRS' fiscal year commences July 1 and ends June 30. Additional information on NECA and TRS can be found at: http://www.neca.org/ and http://www.fcc.gov/cgb/dro/trs.html, respectively.

North American Numbering Plan (NANP) - The NANP is the basic numbering scheme permitting interoperable telecommunications service within the U.S., Canada, Bermuda, and most of the Caribbean. Section 251(e)(1) of the Act requires the Commission to create or designate one or more impartial entities to administer telecommunications numbering and to make such numbers available on an equitable basis. Section 251(e)(2) of the Act requires that the costs of number administration and number portability be borne by all telecommunications carriers on a competitively neutral basis, as determined by the Commission. In implementing Section 251, the FCC appointed a NANP Administrator (NANPA), a national Pooling Administrator (PA) to administer thousands block number pooling, and a Billings and Collection Agent. The FCC selected Welch and Company to be the Billings and Collection Agent for NANP effective October 1, 2004.

For further clarification on the financial relationships between the FCC and these components, see Note 1 of the financial statements in Chapter 3.

STRATEGIC GOALS AND OBJECTIVES

Consistent with the objectives of the Act, as amended by the Telecommunications Act, as well as the 1993 Government Performance and Results Act (GPRA), the FCC has identified six long-term strategic goals in its FY 2003 - FY 2008 Strategic Plan. These goals will be updated and revised, as required by GPRA and OMB Circular A-11, for FY 2006 - FY 2011. For FY 2005, the strategic goals were:

1. Broadband
Establish regulatory policies that promote competition, innovation, and investment in broadband services and facilities while monitoring progress toward the deployment of broadband services in the United States and abroad.

2. Competition
Support the nation's economy by ensuring that there is a comprehensive and sound competitive framework for communications services and devices. Such a framework should foster innovation and offer businesses and consumers meaningful choices in services and devices. Such a pro-competitive framework should be promoted domestically and overseas.

3. Spectrum
Facilitate the highest and best use of spectrum domestically and internationally to promote the growth and rapid deployment of innovative and efficient communications technologies and services.

4. Media
Revise media regulations so that media ownership rules promote competition and diversity in a comprehensive, legally sustainable manner, facilitate the mandated migration to digital modes of delivery, and clarify and ensure compliance with general media obligations.

5. Homeland Security
Provide leadership in evaluating and strengthening the nation's communications infrastructure, in ensuring rapid restoration of that infrastructure in the event of disruption, and in ensuring that essential public health and safety personnel have effective communications services available to them in emergency situations.

6. Modernize the FCC
Emphasize performance and results through excellent management. Develop and retain independent mission-critical expertise and align the FCC with the dynamic communications markets.

STRATEGIES & RESOURCES TO ACHIEVE GOALS

The FCC has identified strategies and resources to achieve its performance goals for each strategic goal. Details on the FCC's strategies and resources for achieving its strategic goals are included in the Commission's strategic plan, found at: http://www.fcc.gov/omd/strategicplan.

To support the linkage between performance and budget activities, the FCC's cost allocation software, the Budget Execution and Management System (BEAMS), provides a robust and integrated addition to the Commission's financial management systems. The BEAMS software tracks personnel and non-personnel costs for the FCC's outputs, performance goals, and strategic goals. Consistent with Office of Management and Budget (OMB) guidance, BEAMS also supports the Statement of Net Cost, detailed budget execution, and full time equivalent (FTE) reporting.

FUTURE CHALLENGES

The Commission has identified certain external factors, described below, that may affect the FCC's ability to achieve its goals and objectives.

• Market and economic uncertainties. Efficient spectrum utilization involves crafting proper economic incentives to relocate and continues to be challenging. Ongoing changes in the methods of delivering news and entertainment programming may introduce economic uncertainty and thus, risk, into communications markets. Economic factors may also spur consolidation within the media industries that could potentially affect competition and diversity. In addition, the transition to digital delivery modes requires significant up-front financial investment from content providers, service outlets, and equipment suppliers prior to full rollout of the technology and eventual recouping of investment. Finally, litigation over important aspects of the regulatory framework related to broadband services, local competition, and media ownership has caused market and regulatory uncertainty.

• Technology. Despite significant recent developments, broadband infrastructure is not yet universally deployed, particularly in rural areas. Some platforms are not suitable for deployment in certain areas of the country due to physical impediments. Mobility and personalization are major trends in communications technology today. Both are dependent on wireless growth and innovation, as well as ease of interconnection with traditional networks. Explosive growth in new technologies — particularly handheld and wireless devices — has driven demand for new spectrum allocations. Increasing demand for spectrum requires new management techniques to allocate, assign, and use spectrum more efficiently and effectively. Integration of technology platforms makes the transition to digital television and radio technologically challenging and requires coordination among various industries. Finally, today's interconnected communications technologies are subject to an increasing number of threats – natural, man-made, physical and cyber.

• Consumer Demand. From the consumer's perspective, the retail price of broadband services relative to other services, such as dial-up Internet access, has affected adoption decisions, despite the availability of packages offering bundled broadband and other services.

• International Developments. The FCC's vision of fully competitive communications markets in the U.S. is at least partially contingent on whether other nations also promote deregulation, competition, and increased private investment in their communications infrastructure. Moreover, while the globally interconnected nature of many of today's communications technologies contributes significantly to the growth of the U.S. economy, that interconnection also exposes networks to a wider variety of threats.

• Resources. The Commission's ability to achieve its vision is largely dependent on the allocation of resources to carry out its critical activities. The FCC must maintain highly trained, expert staff capable of assessing and understanding technological and industry trends and enforcing technical requirements with up-to-date technological tools.

Fiscal Year 2005 Highlights

PERFORMANCE HIGHLIGHTS

The FCC assesses achievement of performance, with regard to GPRA, through the accomplishment of performance goals which carry out the mission of the agency. The progress of these performance goals is measured by the achievement of outcome indicators that monitor and provide results through trend data of various agency programs and activities. Although the actions FCC takes are likely to influence the marketplace, they cannot control the marketplace. The external factors that may influence whether we meet our objectives are economic, legal, and organizational. These factors are highlighted in our FY 2003-2008 Strategic Plan (pages 8-9), which can be found at: http://www.fcc.gov/omd/strategicplan.

In FY 2005, the FCC made great strides in accomplishing major policy and regulatory initiatives as identified below—

Broadband

Performance Goal–
- *Broaden the deployment technologies across the United States and globally.*

  - In December 2004 there were 37,890,646 high-speed Internet lines in service representing a 25% increase over the previous year and a 66% from 2001; and 28,857,608 advanced Internet lines in service representing a 30% increase over the previous year and a 74% increase from 2001. Between December 2001 and December 2004 there was more than a 42% increase in consumer access to broadband services via satellite or fixed wireless services. During the same time period, there was a 375% increase in cable service access to broadband.

  - Significant progress is being made in the deployment of mobile broadband technologies. Several mobile wireless carriers are deploying high-speed mobile Internet access services for cell phones, PDA's, laptops, and other wireless devices using Code Division Multiple Access (CDMA), 1x Evolution Data-Only (EV-DO), and Wideband CDMA (WCDMA) technologies. Mobile data and entertainment services using these network technologies are currently being offered in 41 cities across the United States.

Competition

Performance Goals—
- *Ensure American consumers can choose among multiple reliable and affordable means of communications.*
- *Ensure that all American consumers have and retain wireless and wireline phone services.*
- *Create and maintain a dialogue with regulators around the globe to foster and sustain the creation of pro-competitive foreign and domestic markets.*
- *Create and maintain a dialogue with American consumers so that they are informed about their rights, choices, and responsibilities, and ensure these rights through strong enforcement.*

- There is a steady increase in the percentage of U.S. consumers that can choose between multiple wireline and wireless service providers. Specifically, the percentage of U.S. households living in zip codes served by three or more wireline local exchange carriers has climbed from 67% in 2000 to 87% in 2004. Similarly, the percentage of the U.S. population living in counties served by three or more wireless carriers has climbed from 91% in 2000 to 97% in 2004.
- The consumer price for telephone services has declined over the last six years. The average price of wireless telephone calls has fallen over this period as well. The average price per wireless minutes of use per month for mobile telephone service, including both individual and business users, has fallen over the past four years, down to 9 cents per minute in 2004.

Spectrum

Performance Goals—
- *Ensure that spectrum is used efficiently and effectively.*
- *Facilitate domestic and international deployment of new spectrum-based technologies and services.*
- *Generally shift from rigid to flexible policy models.*
- *Promote ease of access to spectrum by more users.*

- The FCC initiated a rulemaking to implement the Commercial Spectrum Enhancement Act (CSEA), which provides for use of spectrum auction proceeds to fund the relocation of federal government users in spectrum that has been reallocated to commercial use. Implementation of CSEA will facilitate the planned licensing of 90 MHz of Advanced Wireless Services (AWS) spectrum in 2006 and expedite the availability of spectrum for new wireless services.
- The FCC completed several leading edge technology projects that resulted in first-time authorizations for technology using Software Defined Radios, Hearing Aid Compatibility compliance, and new ultra-wideband technologies for communications devices.
- Another way to assess the increase in the number of subscribers to new services that make efficient use of spectrum is to review sales of new equipment. Wi-Fi hardware unit sales increased by 82% from 9.6 million in 2001 to 49.9 million in 2004. Wi-Fi hardware revenue increased by 55% from $1,800 million in 2001 to $3,977 million in 2004.
- Considerable subscriber growth has occurred in the Satellite Digital Audio Radio Service (SDARS) from the fourth quarter of 2002 to the second quarter of 2005. Since October 2004, the number of SDARS subscribers has almost doubled, increasing from 3,162,289 subscribers at the beginning of October 2004 to 6,214,626 subscribers at the end of June 2005.

Media

Performance Goals—
- *Develop a sound analytic foundation for media ownership rules.*
- *Facilitate the transition to digital television and radio.*
- *Clarify and ensure compliance with general media obligations.*

- The FCC made additional progress in the transition from analog to digital television broadcasting by moving up the date by which all mid-size television receivers must include a Digital Television (DTV) tuner. At the end of FY 2005, a total of 1525 of 1687 licensed DTV stations (90%) were on the air with DTV operations; and a total of 447 of 13,555 radio stations (3%) were operating with digital radio authorizations. As a DTV outreach effort, the FCC kicked off an education campaign to highlight the transition to digital television. This major initiative brought all segments of the television industry together to educate the public on the importance of the DTV transition and how it will affect them in the coming years.

Homeland Security

Performance Goal—

❖ *Promote a reliable, secure, and survivable communications infrastructure for the United States.*

- Adopted rules that require interconnected Voice-over Internet Protocol (VoIP) service providers to deliver 911 calls for all customers and provide emergency operators with the call back number and location information of their customers. The FCC also adopted rules broadening the scope of Enhanced- 911 (E911) services to include mobile satellite services, certain telematic services, and resold and prepaid calling card services. Initiated a proceeding to determine whether IP-enabled voice services should be required to comply with our E911 rules.

- During FY 2005, the FCC began to examine the Telecommunications Service Priority (TSP) participation rates of Federal agencies and State and Local Governments. The TSP program increased the reliability of essential NS/EP communications services by minimizing out-of-services times. By the end of July 2005, a total of 42,801 Federal and 5,028 State and Local Government circuits were covered by the TSP program. As a result, these circuits' operations were made substantially more reliable.

Modernize the FCC

Performance Goal—

❖ *Become a more responsive, efficient, and effective agency.*

- In FY 2005, the FCC continued its dedication in operating efficiently, effectively and responsively. As a result, the agency exceeded its goals—
    - Processing time for both circulation-to-adoption and "adoption-to-release" dropped by one-third between FY 2004 and FY 2005.
    - 98% of the agency's actions were disposed within the processing goals.
    - 95% applications were filed electronically or online.

- Made great strides in the final phase of the Consumer Information Management System by fully integrating an artificial intelligence system that automatically sends accurate responses to consumer e-mails within minutes. This resulted in the logging of complaints and inquiries being significantly streamlined, allowing FCC staff to avoid delays when taking calls. Additionally, complaint forms are now on-line for direct filing or downloading in both English and Spanish.

FINANCIAL HIGHLIGHTS

Possible Future Effects of Existing Events and Conditions

Historically, the outstanding Loans Receivable and related Debt to Treasury have comprised the largest balances within the FCC component of the consolidated financial statements. These balances have been in excess of $1.0 billion since the second borrowing was completed in FY 1997 and as high as $9.6 billion and $5.3 billion respectively in FY 2000. The resolution of the Nextwave bankruptcy and subsequent re-auction of the returned licenses in Auction #58 has placed the FCC on track to reduce both balances well under the $1.0 billion threshold in FY 2006.

Loan program collections from the Public totaled $1,604 million in FY 2005 contributing to the overall drop in the loan balance of $1,435 million to $1,257 million at the end of FY 2005. The FCC anticipates receiving additional Auction #58 recoveries of $1,090 million in FY2006.

In addition to the discussion of the loan program above, the FCC addresses the possible future effects of existing claims, deferred maintenance, commitments, and major unfunded liabilities in the notes to the financial statements as well as required supplementary information.

Financial Statements

The financial statements detail the Commission's financial activity and financial position. The financial statements, related notes, and the required supplementary information can be found in Chapter 3 of this report. Following is a brief analysis of the principal statements.

Consolidated Balance Sheet

	FY 2005 (Dollars in millions)	**FY 2004 (Dollars in millions)**	**FY 2003 (Dollars in millions)**
Total Assets	$7,717	$7,368	$8,281
Total Liabilities	$3,283	$5,062	$5,930
Total Net Position	$4,434	$2,306	$2,351

The FCC's most significant assets are Fund Balance with Treasury of $1,523 million, Investments of $4,140 million, and Loans Receivable of $1,257 million. Together, these balances accounted for 90% of total assets as of September 30, 2005. The Loans receivable balance consists of gross receivables, including interest and other receivables, totaling $508 million, offset by a negative subsidy allowance of negative $749 million. The negative subsidy reflects the fact that the FCC expects to collect amounts through the re-auction of licenses versus installment payments and as a result has a higher net loan balance than the gross loan balance

The large Investments balance of $4,140 million results from carryover in the USF that has grown since the program's inception as a result of annual contributions that have exceeded annual distributions.

The FCC's most significant liabilities are debt of $1,274 million and deferred revenue of $1,186 million, which accounted for 75% of total liabilities as of September 30, 2005. All of the debt is owed to Treasury for borrowing related to credit reform installment loans. The bulk of the deferred revenue balance is related to the $1,090 million in anticipated FY 2006 recoveries, which have been collected, but cannot be recognized as revenues until the licenses are granted in the first quarter of FY 2006.

Net position consists primarily of the balance contributed by the Cumulative Results of Operations, which was $4,410 million as of September 30, 2005, and accounted for 99% of Net Position. The USF component comprises $4,277 million, most of which is derived from the carryover situation discussed above as related to the $4,140 million investment balance.

Consolidated Statement of Net Cost

	FY 2005 (Dollars in millions)	**FY 2004 (Dollars in millions)**	**FY 2003 (Dollars in millions)**
Net Cost of Operations	$ 6,568	$7,020	$6,094

The Consolidated Statement of Net Cost is aligned with the six strategic goals of the FCC. Net costs for each goal are presented individually and costs of USF and NANP are included within the Competition strategic goal shown in the Statement of Net Cost. The FCC's subsidy costs for the Spectrum Auction Loan Program are accounted for in the Spectrum goal in the Statement of Net Cost. As a result of the accounting for these activities, the cost for these goals may be significantly higher than the cost of the four other goals.

The FCC's net cost of operations for FY 2005 was $6,568 million, of which $6,567 million correlates to component entities whose funds are restricted for NANP and USF programmatic activities only, and cannot be used by the FCC. The $6,568 million is allocated between the FCC and the two components as follows:

Component	**Net Cost of Operations**
FCC	$ 1 million
NANP	$ (1) million
USF	$ 6, 568 million

Consolidated Statement of Changes in Net Position

	FY 2005 (Dollars in millions)	FY 2004 (Dollars in millions)	FY 2003 (Dollars in millions)
Unexpended Appropriations	$ 25	$38	$43
Cumulative Results of Operations	$4,410	$2,267	$2,308

The total Net Position increase of $2,130 million since September 30, 2004 is attributed to two factors. The first is the recognition of $1,260 million in resources in FY 2005 related to the corresponding subsidy expense recognized in FY 2004. The second is the $881 million increase in USF Cumulative Results of Operations, which stems from the continued collection of receipts greater than disbursements.

Combined Statement of Budgetary Resources

	FY 2005 (Dollars in millions)	FY 2004 (Dollars in millions)	FY 2003 (Dollars in millions)
Total Resources	$11,237	$17,429	$9,377
Appropriations Received	$ 9,899	$16,687	$6,280
Obligations Incurred	$10,538	$17,097	$7,315

Appropriations received in FY 2005 consisted of $1 million for FY 2005 Salaries & Expenses (S&E) that is net of a $280 million regulatory fee offset and $1,260 million for credit subsidy. The USF accounts for the remaining $8,638 million.

Consolidated Statement of Custodial Activity

	FY 2005 (Dollars in millions)	FY 2004 (Dollars in millions)	FY 2003 (Dollars in millions)
Custodial Liability	$ 222	$ 310	$230

The FCC reported $440 million of custodial revenue as of September 30, 2005. Credit Reform represents $269 million, Spectrum Auctions represents $159 million, auction interest represents $1 million, and the remaining $11 million derives from fines and penalties. In FY 2005 the FCC transferred $160 million to Treasury for auction collections, $269 million for Credit Reform Interest and $12 million for fines and penalties. The FCC also retained $85 million to support the Auctions program. The net custodial activity accounts for the Decrease in custodial liability of $88 million from FY 2004 to FY 2005

Other Key Financial Statement Highlights

Subsidy Reestimate

The FCC must annually adjust its allowance for losses on the credit portfolio. In accordance with OMB guidance, the FCC calculates its subsidy reestimate based on the most recent economic and technical assumptions of current portfolio performance.

The FCC's FY 2006 subsidy reestimate was completed to reflect the actual loan performance through May 31, 2005 and projected performance through September 30, 2005. The reestimate resulted in a net downward adjustment (decrease in the subsidy cost) totaling $24.5 million in the Spectrum Auction program. An additional $19.7 million decrease is also recognized, due to interest on the technical reestimate; this represents the amount of interest that would have been paid if the technical reestimate had been included as part of the original subsidy estimate.

This reestimate is reported in the FCC's FY 2005 financial statements, but will not be reported in the budget until FY 2006. For more details, see financial statement Footnote 7 in Chapter 3.

Loan Repayments

Borrowers are required to repay loans on a quarterly basis and are allowed to prepay their loans without penalties. In FY 2005 117 loans were paid off. Collections resulting from these loan payoffs, which include principal, interest, suspension interest, and late fees, totaled $86 million. When compared with the FCC's total collections of $659 million in principal, interest, suspension interest, and late fees, these loan payoffs represent approximately 13% of all collections.

During FY 2005 the FCC wrote off all the remaining NextWave loans. This resulted in decreases of approximately $3.3 billion, $2.1 billion, and $17 million, to the balances for gross Loans Receivable, Interest Receivable and Other Receivables, respectively, as well as a decrease of $5.4 billion to the Allowance for Subsidy Cost. The FCC received NextWave payments of approximately $399 million and $82 million that will be used to repay the Bureau of Public Debt (BPD) interest and principal, respectively, at the end of FY 2005. The FCC re-auctioned multiple C & F block licenses, including those returned by NextWave in Auction # 58, and expects C-block recoveries of approximately $1.9 billion, F-Block recoveries of approximately $171 million, and new auction receipts of $9 million as a result of the auction. Actual Auction #58 recoveries received as of September 30, 2005 were nearly $945 million.

Regulatory Fee Collections

Section 6003(a) of the Omnibus Budget Reconciliation Act of 1993 (Public Law 103-66) added a new Section 9 to the Act. The law requires that the FCC annually collect fees and retain them to offset certain costs incurred by the Commission. The fees collected are intended to recover the non-licensing costs attributable to the Commission's competition, enforcement, consumer information, and spectrum management activities. The amount the FCC is required to recover is included in the FCC's annual appropriations.

Regulatory fees are collected and deposited directly into the Treasury to offset the FCC's appropriations for the current fiscal year. In FY 2005, the FCC was expected to collect approximately $280.1 million. The Commission actually collected $292.9 million.

LEGAL COMPLIANCE, SYSTEMS, AND CONTROLS

Legal Compliance

Like other Federal agencies, the FCC must comply with statutes and regulations related to appropriations, safety and health, and employment. The Office of Managing Director's (OMD) financial compliance responsibilities include: implementing accounting and financial policies, systems, and reports; improving the reliability of financial information; implementing debt collection; and implementing financial management legislation, regulation, and guidance.

Effective management and system controls are essential to the FCC's efforts to comply with applicable legislation, regulations, and guidance. The FCC continues to improve its management controls. As described in Exhibit 2, the FCC continues to implement changes to its financial control systems to conform to the standards identified in the 2004 financial statement audit.

Systems

Federal Financial Management Improvement Act of 1996 (FFMIA)

The FFMIA requires each agency to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. The FFMIA also requires the systems to provide reliable, consistent disclosure of financial data uniformly across the Federal government from year-to-year, consistently using generally accepted accounting principles (GAAP).

As of September 30, 2005, the FCC has evaluated its financial systems:

• Federal Financial System (FFS) – the FCC's central accounting system;

• Revenue & Accounting Management Information System (RAMIS) – the system that handles collections and accounts receivables specific to the FCC, designed to interface with FFS and the FCC's licensing systems.

• BEAMS – this cost allocation software supports the partnership between program and financial managers, assures the integrity of information for decision-making, and measures the full cost of FCC's programs.

The FCC contracted out the activities related to loan servicing for the portfolio, document management, and Uniform Commercial Code (UCC) review and filing services. The FCC completed the transfer of loan data to its contractor by September 30, 2003, with the full loan servicing implemented as of October 1, 2003. The contracted loan servicer's records continue to function as the system of record for the FCC's loan program.

Federal Information Security Management Act of 2002 (FISMA)

The FISMA focuses on program management, implementation, and evaluation of the security of non-national and national security information systems. The FISMA codifies existing OMB security policies, OMB Circular A-130, Appendix III, and reiterates security responsibilities outlined in the Computer Security Act of 1987, the Paperwork Reduction Act, and the Clinger-Cohen Act of 1996. In addition, FISMA requires annual agency program reviews and annual independent evaluations for both non-national and national security information systems.

Risk Assessment

Risk assessments are an integral aspect of the FCC's security tests and evaluations (ST&Es) that support the certification and accreditation (C&A) process. The ST&Es have been completed for all 17 major applications and two general support systems. In addition, C&As are current as of September 30, 2005.

Security Training

All FCC users are provided computer security training. Training generally includes, but is not limited to, discussion of computer security basics, acceptable computer practices, and an overview of Federal and the FCC computer security policies and procedures. Users requiring administrative privileges to FCC systems are given additional advanced computer security training. The FCC provides the following training:

- New user computer security orientation training;
- Quarterly training;
- Annual training;
- Ad hoc security briefings;
- Monthly computer security notices; and
- Computer security alerts and advisories.

Training materials are provided through in-class training, the Computer Security Program (CSP) intranet website, and the FCC University Training Program.

Disaster Recovery Plan

The FCC has implemented significant elements of a full Continuity of Operations Plan (COOP). Additionally, the FCC has implemented an Information Technology Disaster Recovery Plan (IT DRP). As part of the IT DRP, a business impact analysis (BIA) and an alternate processing options analysis (APOA) were completed in April 2003 to ensure that mission-critical systems are included in the plan. The IT DRP establishes thorough plans and procedures and technical measures that allow the FCC network and applications to be recovered quickly and effectively following a service disruption or disaster. The FCC successfully tested its COOP and IT DRP during the May 2004 and June 2005 Federal government-wide continuity of operations exercise, “Forward Challenge ‘04” and “Pinnacle ’05,” respectively.

Security Planning

As required by OMB Circular A-130, Appendix III, and the FISMA, the Computer Security Program (CSP) has developed and maintains system security plans (SSP) for both FCC general support systems and all 17 major applications and two general support systems. The SSP's purpose is to provide an overview of the system's security requirements and to delineate responsibilities of all individuals who access the system.

Computer Security Incident Response

The CSP coordinates all FCC computer security incidents for topics including attempted hacking, computer virus infection, unauthorized system access, lost IT-related devices, and other related matters. The CSP works with the Office of Inspector General and external agencies such as the Department of Homeland Security's Federal Computer Incident Response Capability and the National Infrastructure Protection Center, and the Federal Bureau of Investigation. To help FCC staff respond to computer security-related incidents, the CSP published and distributed the FCC Computer Incident Response and Computer Incident Response Team Desk Reference Guides.

Through these activities, policies, and procedures, the system's owners are well aware of their responsibilities for safeguarding against known vulnerabilities, system flaws, and weaknesses that may be exploited by threat sources.

Internal Control

The FCC maintains internal control for financial reporting that provides reasonable assurance that the financial statements fairly present information related to assets, liabilities, and net position and do not contain material misstatements. . Transactions are executed in accordance with budgetary and financial laws, consistent with FCC statutory requirements, and are recorded in accordance with Federal accounting standards.

Additionally, assets are properly acquired, used, and safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud. Further, FCC's internal control provides for the existence and completeness of the performance measures, as required by OMB Circular A-136.

The FCC received a report on internal controls as part of its FY 2004 audit. The report identifies 13 material weaknesses and reportable conditions. The Independent Auditors' Report on Internal Control and the FCC management's response included at the end of this report detail the Commission's efforts to address those weaknesses in FY 2005.

Government Performance and Results Act of 1993 (GPRA)

The GPRA implemented strategic planning and performance measurement in the Federal Government. The Act encourages agencies to shift the decision-making focus and accountability from program outputs to the results of those activities. As required by GPRA, the FCC has developed its FYs 2003-2008 Strategic Plan and revised that plan for FYs 2006-2011. The agency further fulfills its GRPA obligations by developing performance budgets, which incorporate the previously-required Annual Performance Plan, and completing Performance and Accountability Reports, which include GPRA-required annual performance data in Chapter 2.

Performance Data Completeness and Data Reliability

The performance data presented in this report are complete and reliable, as defined in OMB guidance. The FCC is dedicated to properly and effectively managing its mission and resources. The FCC uses numerous methods and techniques to verify and validate the completeness and reliability of data underlying its outcome indicators. Methods include certification of reliability from data providers, as well as audits, reports, and reviews performed by other groups, such as the Office of Inspector General (OIG) and Government Accountability Office (GAO).

In general, data sources are internal reports generated by various FCC bureaus and offices,[3] which often combine internally generated data: and externally provided data from government surveys, such as the Current Population Survey, and industry data.

Program Evaluations & Streamlining Activities

Based on requirements of OMB Circular A-11, the agency primarily evaluates programs using the Program Assessment Rating Tool (PART).

OMB has requested the FCC to conduct PART's on the following agency programmatic activities:

Schools and Libraries/E-Rate and annual update – Released with 2004 budget and following years
High Cost portion of the Universal Service Fund - Release with 2007 budget
Low Income, Rural Healthcare, and Telecommunications Relay Service portions of the Universal Service Fund - FY 2008 budget

Additionally, as part of its program of internal controls, the agency conducts routine vulnerability assessments. Twenty-five (25) such assessments were conducted during FY 2005.

The GAO completed four reports on FCC-related activities or issues during the fiscal year. The completed studies included direct broadcast satellite subscribership, Commission oversight of the e-rate program, the national do-not-call registry, and Commission management of its federal advisory committees. Seven other GAO studies were pending as of the end of the fiscal year.

Treasury Performance Measure Summary

Treasury uses five key performance measures to assess agency compliance with its financial reporting requirements.

Overall, for FY 2004 the FCC complied with:

- Requirements for timely reporting
- Reconciliation of beginning and ending net position (for balances certified at yearend FY 2004)
- Reliability of FACTS I and FACTS II reporting (for balances certified at year-end FY 2004

[3] Data sources include FCC programmatic reports and application processing systems, inquiry and complaint tracking systems, enforcement reporting systems, and hiring and training systems.

- Consistency of audited financial statements data using the closing package process via government-wide report system (GFRS) and FACTS I reporting
- Intra-governmental activity for elimination of differences.

The FCC will report on FY 2005 FACTS II and intergovernmental reporting activities in the FY 2006 PAR. Because the FY 2005 information will not be available until after the PAR is submitted, we are reporting on FY 2004.

Inspector General Act of 1978

The Inspector General Act of 1978, as amended, requires semi-annual reporting on Inspector General audits and related activities, as well as agency follow-up. From October 1, 2004 through September 30, 2005 management closed 96 recommendations. As of September 30, 2005, 25 reports were at least one year old, with a total of 177 recommendations for which completion of corrective action was pending. Five of the 25 reports are currently under administrative appeal.

Debt Collection Improvement Act of 1996 (DCIA)

On October 1, 2004, the Commission implemented the DCIA requirements. Prior to implementation, the FCC conducted a series of outreach discussions to inform the public and internal FCC customers of the requirements to comply with this Federal mandate. Based on these discussions and other follow-up activities associated with the existing delinquent debts, the Commission decided to provide a grace period from October 1, 2004 to October 31, 2004 before enforcing the DCIA to allow more opportunity to resolve issues. As of November 1, 2004, the FCC began enforcing the DCIA by implementing the Red-Light rule. All licensing systems and bureaus/offices within the Commission check for delinquent debts before issuing a licenseor permit, or granting a license.

The DCIA requires Federal agencies to transfer to the Treasury for debt collection any non-tax debt over 180 days delinquent. In cases of delinquency, the full amount of outstanding debt, including outstanding principal, past due interest, and late fees, will be accelerated and must be paid in full. Failure to pay in full upon demand results in transfer of the debt to Treasury for debt collection and assessment of additional interest, penalties, and other administrative charges. In FY 2005, the FCC transferred to Treasury outstanding debt totaling $2 million for loans and $6,868 for accounts receivable. There were no debt transfers for the reporting components.

Improper Payments Information Act of 2002 (IPIA) – Narrative Summary of Implementation Efforts for FY 2005 and Agency Plans for FY 2006-2008

The IPIA requires Federal agencies to report annually on the extent of improper payments and on actions taken to reduce such payments. After conducting a complete inventory, the FCC identified eight programs for analysis. As reported in FY 2004, the FCC statistically tested six of the eight programs on a pure disbursement basis; we can state with 90% confidence that the error rate in each of these programs is less than 2.5%. The remaining two programs appear to have sufficient volume and error rates to warrant further investigation and monitoring. The FCC identified the Universal Service Fund's Schools and Libraries Program and High Cost Support Program beneficiary payments as subject to significant risk of improper payments based on the limited information available. The FCC indicated informally to OMB that these programs are complex programs that pose difficulty in complying with the requirement to measure statistically the rate of improper payments.

As of now, no baseline comprehensive improper payment rate has been established for either program; however, the FCC has developed a plan to obtain a statistically valid rate for improper payments in both programs. During FY 2005 the FCC OIG, in conjunction with USAC, the administrator of the USF, developed an audit plan calling for approximately 250 beneficiary audits of each of the two programs. The number of audits is sufficient to provide a statistically valid improper payment rate in both of the programs. A procurement solicitation in FY 2005 for these services was cancelled without making an award. This solicitation will be reissued and an award is expected in FY 2006. While the FCC anticipates that some preliminary results could be reported in next year's PAR, our goal is to have firm statistical conclusions concerning the error rate in each program on or before September 30, 2007.

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

In accordance with the FMFIA, the FCC has developed corrective actions to address the material weaknesses related to its internal control structure. The corrective actions establish both short- and long-term solutions to identified weaknesses. Significant actions accomplished during FY 2005 include: establishing and formalizing controls over the default and withdrawal penalty process; converting component entities to Generally Accepted Accounting Principles for Federal Government Agencies (FEDGAAP) and establishing standard reporting checklists at the FCC for reviewing component entity financial submissions; completing the FCC-wide security plan; completing testing and training on the FCC disaster recovery plan; and correcting cost allocation logic issues that arose at the close of FY 2004. Longer term, the FCC continues to address the need to replace the current Core financial accounting system with an Enterprise Resource Planning (ERP) system. Implementing the new ERP system will address several longstanding integration-related weaknesses of the current system.

As indicated above, the component entities of the FCC converted to FEDGAAP on October 1, 2004. The conversion is significant to the FCC's ability to manage its component entities because it places them under the same structure the FCC uses to manage its accounts and records. While the conversion was not seamless, it has progressed throughout the course of the year through monthly interaction and feedback between the FCC and the entities. As a result, a stronger foundation has been established from which the FCC can manage the consolidated financial reporting effort.

The FCC OIG, in conjunction with the Department of Justice and the Federal Bureau of Investigation (FBI), continues to investigate beneficiaries of the USF as an outgrowth of our financial statement audit process. The audits have identified instances of both failure to follow program rules and actual fraud. Many of the identified problems are related to the program's initial years and have already been corrected, though the amounts involved are material. The FCC continues to actively pursue changes in the Universal Service Program to enhance effectiveness and efficiency. The schools and libraries support mechanism is significant when compared to the FCC's operations, and challenges remain to assure that program disbursements obtain the greatest possible benefits.

Reporting under FMFIA and conducting annual financial audits under the Chief Financial Officer's Act – and now the Tax Accountability Act of 2002 – is challenging. We annually meet FMFIA requirements by including in our report material weaknesses and instances noted of non-conformance identified by our auditors. For FY 2005, financial management was added to managers' annual evaluation standards. The FCC continues to look to the cost accounting system as a means of providing information to all levels of management on the costs of agency activities. While our financial improvements continue and new challenges arise, we maintain our commitment to strong financial tracking and reporting as one tool to assure the most efficient use of scarce resources.

Due to the timing of this report, Exhibits 1 and 2 detail the pending and completed FMFIA material weaknesses and instances noted of nonconformance, respectively, resulting from the FY 2004 audit findings, including the year first identified, the targeted corrective action date, key milestones for corrective action, and instances where the agency was not able to meet key milestones from the previous year. The FCC's first financial statement audit in FY 1999 identified numerous recommendations related to material weaknesses and instances noted of nonconformance.

As shown in the tables below, over the past five years the FCC has undertaken many corrective actions to address the material weaknesses and instances noted of nonconformance identified by OIG, GAO, and the independent auditors.

Exhibit 1: FMFIA Material Weaknesses

Material Weakness (Identified in the FY 2004 Financial Statement Audit Report on Internal Control)	**FY First Identified**	**Targeted Corrective Action**	**Milestones for Corrective Action**	**Status**
I. Auction Transactions				
A. Auction Receivables	2003	2005	All withdrawal and default penalties have been identified and a master list has been prepared to track licenses status. Receivables have been established in RAMIS and FFS for all letters released (Completed 8/31/2005).	Completed
			Update Policies and Procedures for withdrawal and default receivables and place them on the FCC intranet. (Completed 8/31/2005)	Completed
			Compare billed default and withdrawal penalties against the $12 million accrued at the end of FY 2003 until all of the accrual has been billed or otherwise reversed. (Target: 9/30/2005)	In progress
B. Spreadsheet Subsidiary Ledger	2003	2007	The FCC began running the RAMIS Auction module parallel to the Spreadsheet Subsidiary process in FY2005. Programming issues with the module have prevented the FCC from moving to full conversion and cost considerations have forced the FCC to dismiss this module as a solution and look at the new core financial system purchase as the alternative.	On Hold
II. Oversight of Reporting Components	1999	2006	Update the Chapter 8 sections relevant to the component entity financial statements and place them on the intranet. (Target: 10/1/2005).	In Progress
		2005	Establish standard checklists for use by the FCC and the entities in reviewing financial statement submissions. (Completed 5/31/2005).	Completed
		2005	Establish responsibility for preparing financial statements with the component entities and responsibility for review with the FCC (Completed 5/31/2005).	Completed
		2005	Perform evaluations on component entity financial submissions and provide written and oral feedback to the components on the results.	Completed/On-Going

Material Weakness (Identified in the FY 2004 Financial Statement Audit Report on Internal Control)	FY First Identified	Targeted Corrective Action	Milestones for Corrective Action	Status
III. USF Financial Reporting: Accounting and Reporting Controls	2001	2006	Incorporate the standard financial review checklist into the required documents provided by outside components (Target:12/15/2005).	In Progress
		2004	Continue monthly meetings with the largest component entity and regular meetings with other entities surrounding required financial submissions.	Completed/On-Going
		2005	Require outside components to submit financial statements based on the Standard General Ledger (SGL) structure and Treasury Financial Manual (TFM) crosswalks (Completed 5/31/2005).	Completed
IV. Reporting Components' Budgetary Accounting	2004	2005	Provide written feedback to the component entities on issues identified by the review of the interim financial submissions, including GOVGAAP issues. (This process has effectively eliminated most of the GOVGAAP deficiencies that existed at the start of the FY. The FCC intends to continue this practice as a standard supervisory procedure.)	Completed/On-Going
		2005	Hire an independent accounting firm to review USAC compliance with GOVGAAP (Target: 9/30/2005).	Completed. Report received in August 2005.
		2006	The FCC will work with USAC and NECA to ensure that when new Core Financial systems are purchased they meet the FFMIA requirement to record transactions at the transaction level, to resolve this current deficiency.	In-Process
V. Information Technology (IT)				
A. Compliance with OMB Circular No. A-130 Requirement for a Comprehensive Security Plan	1999	2005	Issue a new directive 1131.1 Information Security Manual. (Target 12/31/2005)	Completed
			Complete the FCC-wide security plan. (Completed 7/28/2005)	Completed
			Conduct security awareness training for contractor loan servicing employees. (Completed 4/21/2005)	Completed
			Determine if the loan servicing application is a major application. (Target: 9/30/2005)	In progress
			Enhance audit trail capability. (Completed: 3/31/2005)	Completed
B. Accelerate Efforts to Develop and Test FCC's Contingency Plan	1999	2005	Participate in the Federal COOP exercise on June 2005. Lessons learned from that exercise will be incorporated into the existing plan. (Target: TBD).	In Progress
C. Disaster recovery Plan for USF	2004	2005	Develop and test a disaster recovery plan for the USF. (Completed: 4/5/2005)	Completed

Material Weakness (Identified in the FY 2004 Financial Statement Audit Report on Internal Control)	FY First Identified	Targeted Corrective Action	Milestones for Corrective Action	Status
D. Security Policies and Procedures for USF	2003	2005	Develop and implement security policies and procedures that detail controls to protect data on the USAC network. (Target: 9/30/05)	In progress
			Update USAC computer security policy and make available to all employees. (Target: 9/30/2005).	In progress
VI. Cost Allocation Logic	2004	2005	Review, test and correct existing BEAMS allocation logic. (Completed 3/31/2005).	Completed

Exhibit 2: FMFIA Non-Conformances

Non-Conformances (Identified in the FY 2004 Financial Statement Audit Report on Compliance with Laws and Regulations)	FY First Identified	Targeted Corrective Action	Milestones for Corrective Action	Status
I. Chief Financial Officers Act of 1990 A. FCC's financial management systems do not comply with certain accounting standards and requirements, and internal control standards. B. FCC's financial management system is not fully integrated. C. Direction, policy guidance memorandum for FCC's financial statement preparation and oversight of the reporting components' financial operations are inadequate.	1999		See Sections I. through IV and VI in Material Weaknesses Milestones for Corrective Action.	
II. Antideficiency Act	2004	2005	The FCC sent a letter to the President on February 25, 2005 notifying him that an Anti-deficiency Act violation had occurred. The FCC took steps at the end of FY 2004 to correct the violation; subsequently, the USF received a temporary exemption from the Act that expires on December 31, 2005.	Completed
III. OMB Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*				
A. Required loan documentation was not found for Narrowband licenses.	1999	2004	Licenses began as payment plans where no loan documents were required and were subsequently brought under credit reform. All 11 licenses have defaulted and documents will never be obtained.	Completed
IV. Debt Collection Improvement Act of 1996 A. Refer debt within 180 days B. Perform delinquency debt letter procedures	2002	2006	The FCC plans to transfer 2,750 debts to Treasury by 12/31/05. Additional time is being devoted to this process monthly to clear the remaining backlog.	In Process
V. Federal Financial Management Systems				
A. Integrated Financial Management System	1999	2007	The FCC has begun the procurement cycle for a new Core financial accounting system and plans to award a contract in FY 2006 and "go live' in FY 2007, pending funding availability.	In Progress
B. Agency-wide Financial Information Classification Structure	2000	2007	See above	
C. Security	1999		See Section V. in the Material Weaknesses Milestones for Corrective Action.	
VI. Federal Accounting Standards **A.** Accounts Payable Recognition Point	2000	2004	The FCC performs an accrual to recognize these costs at the close of any financial reporting period.	Completed
B. Generation of Costs per Unit	2000	2006	Define units of output and modify BEAMS to account at that level (Target: 06/30/06)	Planning

Non-Conformances (Identified in the FY 2004 Financial Statement Audit Report on Compliance with Laws and Regulations)	**FY First Identified**	**Targeted Corrective Action**	**Milestones for Corrective Action**	**Status**
C. Matching Revenues to Costs.	2000	2006	Develop a methodology for allocating revenues on the basis of cost incurred.	Planning
			Modify BEAMS to implement the methodology.	Under Evaluation
VII. U.S. Standard General Ledger at Transaction Level				
A. Federal financial system setup and posting models do not fully comply with the transaction posting models.	1999		See response in section V.A. above.	In progress
B. Accounting transactions of the reporting components were not recorded in a manner consistent with the account definitions and posting models/attributes.	2000		See response in section V.A. above.	In progress

2. Program Performance

The combinations of telecommunications networks and services that the FCC oversees means that any one item before the Commission touches on more than one of our six strategic goals. Each of our strategic goals is interrelated and mutually supportive. Internet Protocol – enabled services, for example, may involve elements of our Broadband, Competition, Media, and Homeland Security goals, depending on the specific issues involved. The highlights outlined in each of the strategic goals offer a representation of our achievement and may additionally provide support for our other strategic goals. In an effort to reduce repetition, we have placed the agency's accomplishments under the goals where their impact is most pronounced, but that does not mean their effects are isolated to that goal. Indeed, any one accomplishment may be directly relevant to our progress in achieving other goals as well.

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BROADBAND

Strategic Goal:

Establish regulatory policies that promote competition, innovation, and investment in broadband services and facilities while monitoring progress toward the deployment of broadband services in the United States and abroad.

Americans increasingly rely on broadband for local and global communications, as well as access to information, commerce, education, and entertainment. Increased public demand for faster, more robust broadband services and products has led to increased deployment of broadband technologies and applications, dramatically reducing the cost of exchanging information and helping to narrow the digital divide. The FCC is committed to encouraging and promoting broadband deployment and availability across multiple platforms to ensure that access is not a barrier to adoption of affordable broadband technologies as they become available.

Deployment of developing broadband services that utilize power lines, fiber, and terrestrial and satellite wireless technologies will enable those outside densely populated areas to affordably access broadband services.

FY 2005 PERFORMANCE GOALS

- Broaden the deployment technologies across the United States and globally.

FY 2005 PERFORMANCE HIGHLIGHTS

- Video Relay Service (VRS) – The agency established market-based reimbursement rates for two broadband related Internet-based forms of Telecommunications Relay Service (TRS): VRS and Internet Protocol (IP) Relay. The FCC also adopted rules to improve VRS speed-of-answer requirements and approved a new type of TRS service, Video Relay Email. In addition, the agency adopted an order concluding that Spanish translation VRS – *i.e.*, relay service in which the Communications Assistant (CA) translates what is signed in American Sign Language (ASL) into spoken Spanish, and *vice versa* – is a form of TRS compensable from the Interstate TRS Fund.

- Consumer Outreach and Education – Through presentations, the FCC's website, and publications, the FCC provided information on the benefits of broadband for economic development, telemedicine, distance learning, e-government, homeland security and emergency services, IP telephony, and access to news, information, and entertainment. Through the FCC's Consumer Center, the agency responded to consumer inquiries and resolved informal complaints related to broadband services and providers. Through the Consumer Advisory Committee's Broadband/DTV working group, FCC staff addressed broadband-related issues including E911, universal service, homeland security, and broadband access for people with disabilities.

- Rural Health Care – The FCC adopted rules to fund the provision of advanced telecommunications and information services to rural health care providers in states that are "entirely rural" and that would not otherwise receive funding for telecommunications services under the program.

- Schools and Libraries – The agency initiated a rulemaking to strengthen existing efforts to protect the Universal Service program that supports broadband in schools and libraries from waste, fraud, and abuse.

- Broadband Reporting – The FCC adopted rules to revise the information collected about broadband by removing reporting thresholds and adding five speed tiers to the high speed data and advanced services reporting. The agency also provided data to the Organization for Economic Development and Cooperation (OECD) and the International Telecommunication Union (ITU) on U.S. broadband deployment.

- Ultra-wideband Technology – The FCC participated in international meetings of the ITU group developing global standards for implementation of ultra-wideband technology, which can expect speeds exceeding the high speed minimum by over 1000 times (excess of 200 megabits per second). Agency staff also presented a paper at an international meeting of the ITU-R (ITU Radiocommunication) Task Group to further understanding of how ultra-wideband can be appropriately implemented.

- Broadband Infrastructure Deployment – The FCC granted petitions by the regional Bell Operating Companies (BOCs) seeking forbearance from applying the unbundling obligations listed in section 271 of the Telecommunications Act of 1996 for fiber-to-the-home (FTTH) loops, fiber-to-the-curb (FTTC) loops, the packetized functionality of hybrid copper-fiber loops, and packet switching (which allows carriers to provide broadband services over fiber networks). The agency also removed additional roadblocks to broadband deployment in residential neighborhoods by concluding that FTTC loops are subject to the same unbundling framework established for FTTH loops. The agency clarified that incumbent Local Exchange Carriers (LECs) are not required to add time division multiplexing (TDM) capabilities into new packetized transmission facilities. Further, the FCC determined that a state commission may not require an incumbent LEC to provide digital subscriber line (DSL) service to an end user customer over the same unbundled network element (UNE) loop facility that a competitive LEC uses to provide voice services to that end user.

- E911 – The agency adopted rules that require interconnected Voice-over Internet Protocol (VoIP) service providers to deliver 911 calls for all customers and provide emergency operators with the call back number and location information of their customers. The agency initiated a rulemaking to address the requirements needed to ensure that providers of VoIP services that connect with the nation's PSTN provide ubiquitous and reliable E911 service.

- Earth Stations on Vessels (ESVs) – The FCC adopted rules for sharing spectrum in the C-band and Ku-band between ESVs and terrestrial systems to provide broadband and other two-way services to consumers and businesses on ocean liners and other ships.

- Wireless Broadband Spectrum Allocation – The FCC adopted rules to open access to 50 MHz of spectrum for wireless broadband in the 3650-3700 MHz band. The agency modified the band plan and licensing and service rules for the 90 MHz of Advanced Wireless Service (AWS) spectrum at 1710-1755 MHz and 2110-2155 MHz. The agency also adopted service and licensing rules for the 4.9 GHz band to accommodate a wide variety of broadband wireless applications in support of public safety, including, for example, wireless local area networks for incident scene management, dispatch operations, and vehicular operations. In addition, the agency revised the band plan and rules governing the 4 MHz of spectrum in the 800 MHz commercial Air-Ground Radiotelephone Service band to facilitate the provision of new wideband data services and other related services, including emergency communications to commercial aircraft.

- Aeronautical Mobile Satellite Service (AMSS) – The FCC initiated a rulemaking to establish a regulatory framework for licensing the operation of AMSS systems, which can be used to provide broadband telecommunications services on passenger and government/private aircraft. The FCC concurrently authorized the provision of broadband data communications on commercial airlines, corporate jets and smaller aircraft in the U.S. and over U.S. territorial waters.

- Licensing – The agency adopted streamlined procedure for licensing "non-routine" earth station applications, most often used or satellite-based broadband Internet access service.

- Satellite Authorizations – The FCC issued seven licenses to four satellite providers (EchoStar, DirecTV, SkyTerra, Skybridge) to provide new broadband services in the U.S. The agency also approved orbital relocations for 13 satellites to allow adjustments to meet consumer needs, including deployment of broadband technology.

- International Leadership – The FCC provided technical and policy expertise to U.S. Delegations for meetings at the ITU and Inter-American Telecommunication Commission (CITEL) on U.S. regulatory policies and rules for IP-enabled services and regulation of standards for next generation networks. Agency representatives met with regulators in Mexico to discuss how to enhance deployment of broadband services in rural areas, and made presentations to delegations from Peru, France/Algeria, Japan, China, Colombia, Ghana, and Germany on various topics, including regulatory convergence, broadband policy, and wireless broadband access. The agency also provided data to the OECD and the ITU on U.S. broadband deployment.

- International Forum Participation – Agency representatives gave presentations on FCC broadband policy at a global forum in Malmo, Sweden and at the U.S. - Japan Broadband Conference in Tokyo, Japan. The agency also participated in the ITU's Global Symposium for Regulators in Geneva, Switzerland, which focused on identifying best practices to facilitate access to broadband and Internet connectivity. Agency representatives participated in the ITU Telecommunications Standardization Assembly (WTSA) to promote the use of international standards for telecommunications equipment and services, particularly standards for new technologies such as Next Generation Networks.

- Domestic Forum Participation – The FCC held a satellite forum to discuss the mobility and portability of satellite earth stations for providing broadband to rural America, and to promote the distribution and use of broadband satellite receivers. Agency representatives also presented research on broadband development in the U.S. at the University of Florida Conference on Broadband Issues in Gainesville, Florida, and gave presentations to industry on a variety of topics related to using satellites to implement new broadband services internationally.

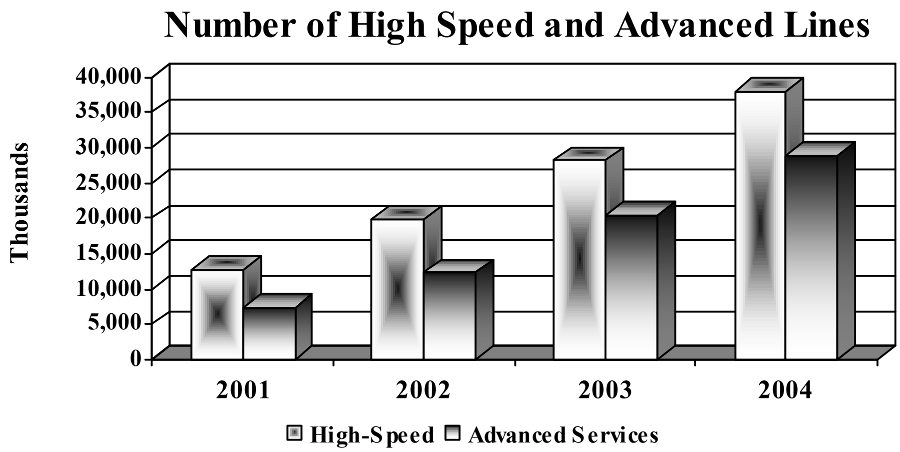
- Broadband Over Power Lines (BPL) –The agency adopted rules for carrier current systems that provide access to broadband services using electric utility companies' power lines. BPL will provide broadband services to homes and will give consumers a third choice in broadband providers.

- Broadband Radio Service (BRS) and Educational Broadband Service (EBS) – The FCC adopted rules to provide a less complicated and more flexible structure for geographic licensing in the 2.5 GHz band to allow licensees to add facilities for BRS and EBS without prior Commission approval.

- Wireless Broadband Access Task Force – The agency released a report identifying actions the Commission could take to facilitate deployment of wireless broadband services.

FY 2005 PERFORMANCE INDICATORS

Increase the number of high-speed and advanced services lines.



Broadband, also known as advanced telecommunications capability and advanced services, currently refers to services and facilities with a transmission speed greater than 200 kilobits per second (kbps). High-speed lines deliver services at speeds exceeding 200 kbps in at least one direction, while advanced services lines deliver services at speeds exceeding 200 kbps in both directions.

As of December 2004,[4] subscribers to high-speed services were present in 95% of the zip codes in the United States, up 2% from the previous year.[5] There were 37.9 million high-speed lines in service,[6] 35.3 million of which were assigned to residential and small business subscribers.[7] Advanced services lines increased 23% during the second half of 2004, from 23.5 to 28.9 million lines.[8]

Services providers report the presence of high-speed service subscribers in all 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. Relatively large numbers of high-speed lines in service are found in the most populous states; i.e., California, New York, Florida, and Texas.[9]

Increase access to broadband services and devices across multiple platforms

Both high-speed and advanced services lines increased for all categories of service, with dramatic increases in two categories: asymmetrical digital subscriber line (ADSL) and coaxial cable connections (cable modem service).

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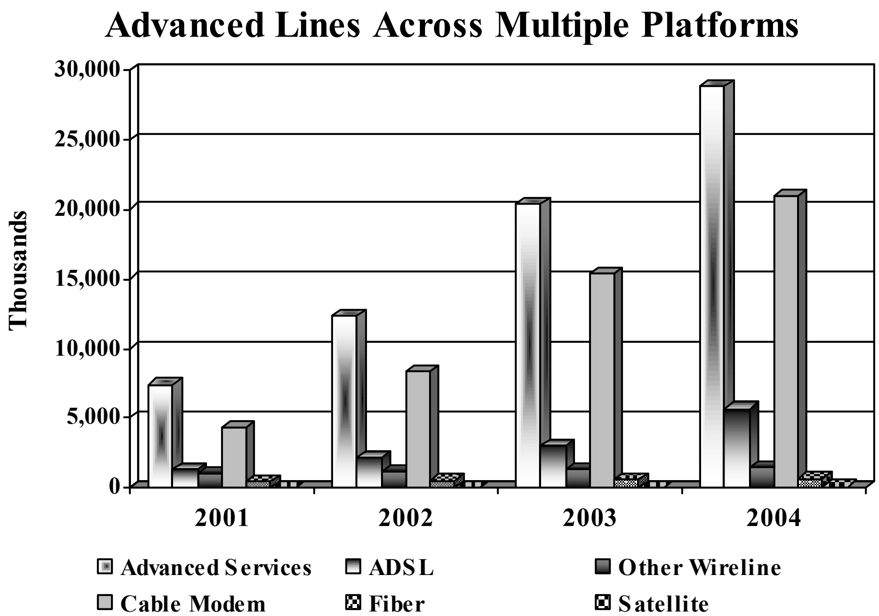
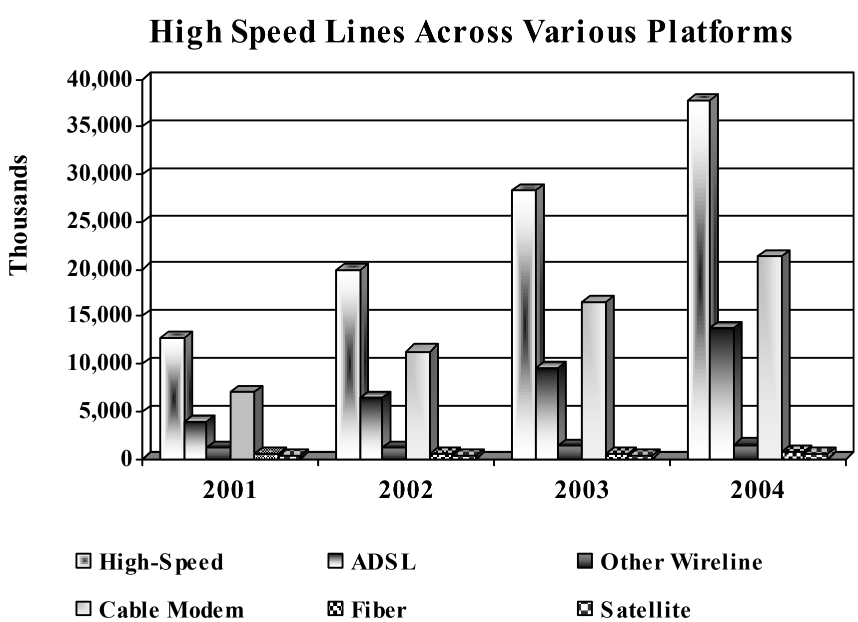
[4] Data on advanced services for Internet access is collected every six months; the latest available data released from the FCC is from December 2004. The report on *High Speed Services for Internet Access: Status as of December 31, 2004*, released July 7, 2005, is available at: http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/hspd0705.pdf.
[5] Ibid., Chart 10, page 20.
[6] Ibid., Table 1, page 6.
[7] Ibid., Table 3, page 8.
[8] Ibid., Table 2, page 7. 26.4 million of these advanced services lines were assigned to residential and small business subscribers. Ibid., Table 4, page 9.
[9] Ibid., Table 7, page 14. The number of high-speed lines in these states were 5.4 million, 2.8 million, 2.7 million, and 2.6 million, respectively.

- ADSL high-speed lines increased by 45%, to 13.8 million lines, while high-speed cable modem service lines increased by 30% to 21.4 million lines.[10]

- ADSL advanced services lines increased by 88% to 5.7 million lines, while cable modem advanced service lines increased by 36% to 20.9 million lines.[11]



Significant progress is also being made in the deployment of mobile broadband technologies. Several mobile wireless carriers are deploying high-speed mobile Internet access services for cell phones, PDAs, laptops, and other wireless devices using CDMA, EV-DO, and WCDMA technologies. EV-DO increases maximum data transfer speeds to 2 Mbps, and typical user-experienced download speeds range from 300-500 kbps. WCDMA



[10] Ibid., Table 1, page 6.
[11] Ibid., Table 2, page 7.

allows maximum downstream data speeds of up to 2 Mbps, and typical speeds of 220-320 kbps. Mobile data and entertainment services using these network technologies are currently offered in 41 cities across the U.S.

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COMPETITION

Strategic Goal:

Support the Nation's economy by ensuring that there is a comprehensive and sound competitive framework for communications services. Such a framework should foster innovation and offer consumers meaningful choice in services. Such a pro-competitive framework should be promoted domestically and overseas.

The communications industry is critically important to our national and global economy. Encouraging competitive forces in markets for communications services has long been a central FCC goal to improve the quality and variety of services and to reduce prices. Indeed, the stated purpose of the Telecommunications Act of 1996, amending portions of the Communications Act, was "[t]o promote competition and reduce regulation in order to secure lower prices and higher quality services for American telecommunications consumers and encourage the rapid deployment of new telecommunications technologies."

FY 2005 PERFORMANCE GOALS

- Ensure American consumers can choose among multiple reliable and affordable means of communications.
- Ensure that all American consumers have and retain wireless and wireline phone services.
- Create and maintain a dialogue with regulators around the globe to foster and sustain the creation of pro-competitive foreign and domestic markets.
- Create and maintain a dialogue with American consumers so that they are informed about their rights, choices, and responsibilities, and ensure these rights through strong enforcement.

FY 2005 PERFORMANCE HIGHLIGHTS

- <u>Local Competition</u> – The FCC made a series of related decisions on incumbent local exchange carrier obligations to unbundle network elements to competing carriers. The agency extended to fiber-to-the-curb loops the same 251(c) network element unbundling rules that apply to fiber-to-the-home loops to encourage deployment of advanced services networks. The agency did not require unbundling of broadband elements under the separate network element unbundling provisions in section 271 of the Act, and finalized section 251(c) network element unbundling rules that had previously been vacated by the courts. The agency also determined that the broadband loop unbundling rules, established in the Triennial Review Order, do not permit states to require incumbent local exchange companies to provide xDSL services to competitive LEC voice customers over the same loop facility.

- International Competition – The FCC issued 457 Section 214 authorizations, which authorize providers of international telecommunications services. The agency also issued a Notice of Inquiry seeking comment on the effect of foreign mobile termination rates on U.S. customers, and issued a Notice of Inquiry seeking comment on how it can better protect consumers from the effects of foreign carriers' anticompetitive conduct.

- Satellite Competition – The agency issued its sixth Orbit Act Report to Congress, which requires the Commission to report annually on its progress in meeting the Orbit Act's objectives. The agency also released two decisions that found that Intelsat and Inmarsat met the Orbit Act's requirements by certifying that certain interests held by Signatories and intergovernmental organizations are consistent with the requirements specified in the Orbit Act as an alternative to having to hold an Initial Public Offering.

- Competition for Multichannel Video Programming – The FCC adopted rules defining the eligibility for DBS providers to hold a license for the 61.5 East orbital location, in order to encourage new entrants into the DBS market.

- Intercarrier Compensation – The agency issued a Further Notice of Proposed Rulemaking seeking comment on how to reform the system of payments between carriers for the origination and/or termination of communications traffic. The agency also amended its rules on a prospective basis to prohibit the use of tariffs to impose intercarrier compensation obligations with respect to non-access CMRS traffic.

- Toll Calling Competition – The FCC adopted an Order revising its policies for the charges that carriers are permitted to charge end-users for changing their interLATA and intraLATA toll carriers, in order to account for differences between manually processed and electronically processed requests.

- Special Access – The agency initiated a Notice of Proposed Rulemaking seeking comment on incumbent LEC special access service pricing.

- CAN-SPAM Rules for Wireless Services Providers – The FCC completed a collection of wireless domain names from Commercial Mobile Radio Service providers and published on the Commission's web site the wireless domain name list, triggering compliance obligations for its "CAN-SPAM" rules prohibiting the sending of commercial electronic mail messages to wireless devices without the recipient's express prior authorization. The agency continues to work with senders of commercial electronic mail messages to wireless devices and CMRS providers to ensure the list is accurate, up-to date, and includes only domain names used for sending messages to wireless devices. The agency amended the Commission's "CAN-SPAM" rules to reflect the Federal Trade Commission's newly adopted definitions of commercial electronic mail and transactional or relationship messages; these definitions are incorporated by reference in Commission rules, to reflect any further FTC revisions.

- Truth-in-Billing for Wireless Carriers – The agency required mobile wireless carriers to provide consumer bills according to the Commission's Truth-in-Billing rules, requiring that billing descriptions be brief, clear, non-misleading and in plain language. The agency reiterated that it is misleading to represent discretionary line item charges in any manner that suggests such line items are taxes or charges required by the government and adopted a Further Notice of Proposed Rulemaking to further examine this and other related issues.

- Do-Not-Call Rules – The Commission addressed several issues related to its do-not-call registry rules on reconsideration. The agency clarified that bill messages satisfy the requirement that common carriers provide an annual notice to subscribers of the opportunity to register with the national do-not-call list, and clarified the "established business relationship" exemption and the rules on maintaining company-specific do-not-call lists.

- Changing Carriers – The FCC adopted new rules to facilitate the exchange of customer account information between LECs and IXCs and to establish carriers' responsibilities with respect to such exchanges to help ensure that consumers' phone service bills are accurate and that their carrier selection requests are honored and executed without undue delay. The rules specify a number of situations in which carriers must share customer information with each other.

- Local Number Portability – The FCC continued implementation and enforcement of local number portability requirements, which have enabled millions of consumers to "port" a phone number when switching carriers at the same location, and which have stimulated competition among carriers based on price, service quality, and innovative service offerings.

- Wireless Competition – The FCC reviewed several mergers among major wireless carriers (AWS/Cingular, Alltel/Western, and Sprint/Nextel) to ensure that the transactions were in the public interest. Where necessary, the agency imposed specific conditions on the parties or required divesture of particular markets to ensure that the mergers would not hinder competition. The agency also continued to promote wireless competition by making additional spectrum available in the marketplace for new wireless services and new competitive entrants.

- Competitive Bidding Rules – The FCC issued an order revising the Commission's competitive bidding rules to enhance bidding opportunities for rural telephone cooperatives.

- Universal Service – The Commission issued several rulemaking proceedings to improve the administration of the Universal Service Fund. Among other actions, the Commission:

  - issued an Order detailing additional requirements for obtaining and maintaining Eligible Telecommunications Carrier status;

  - released a Notice of Proposed Rulemaking to examine comprehensively how the various universal service programs are administered; and

- adopted an Order that expanded the universal service rural healthcare program to bring up-to-date medical services and information to rural areas through telecommunications.

- Disability Access – The FCC undertook several actions to improve access to communications services for persons with hearing and speech disabilities. The Commission:

  - issued a Notice of Proposed Rulemaking seeking comment on the Commission's closed captioning rules to ensure video programming is accessible to deaf and hard of hearing Americans, and whether any revisions should be made to enhance the rules' effectiveness; sought comment on several compliance and quality issues relating to closed captioning;

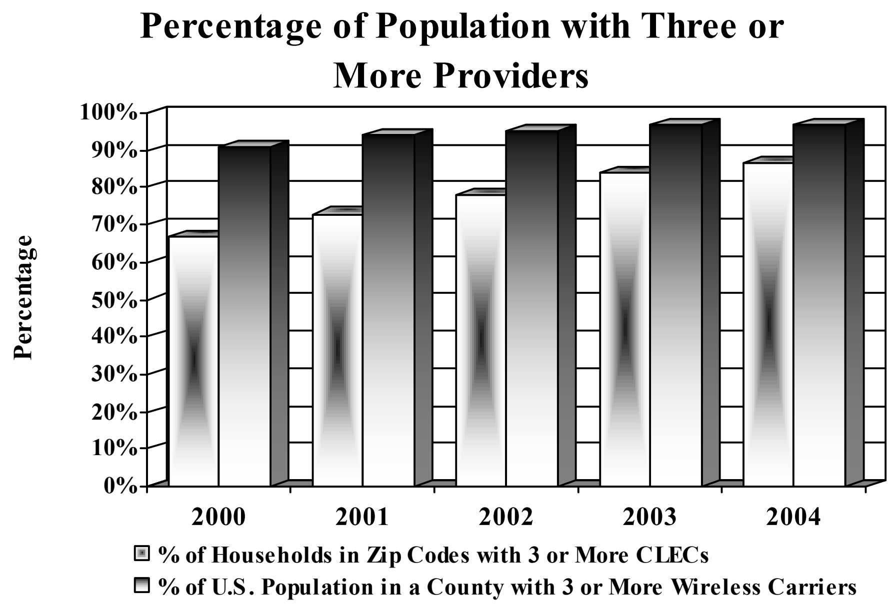
  - clarified that two-line captioned telephone service is a type of TRS eligible for compensation from the Interstate TRS Fund and granted a proposed allocation methodology for determining the number of inbound two-line captioned telephone minutes that should be compensated from the Interstate TRS Fund;

  - adopted rules moving VRS closer to the goal of providing deaf and hard of hearing people functionally equivalent access to the nation's telephone system, by establishing mandatory speed of answer requirements for VRS, requiring VRS to be offered 24 hours a day, seven days a week, and permitting VRS providers to be compensated for providing VRS Mail; also concluded that Spanish translation VRS – in which the communications assistant translates what is signed in American Sign Language into spoken Spanish, and vice versa – is a form of TRS compensable from the Interstate TRS fund.

  - reaffirmed the timetable for developing and selling digital wireless telephones that are compatible with hearing aids and sought comment on whether additional rule changes are necessary to ensure that people with hearing loss have reasonable access to digital wireless technologies.

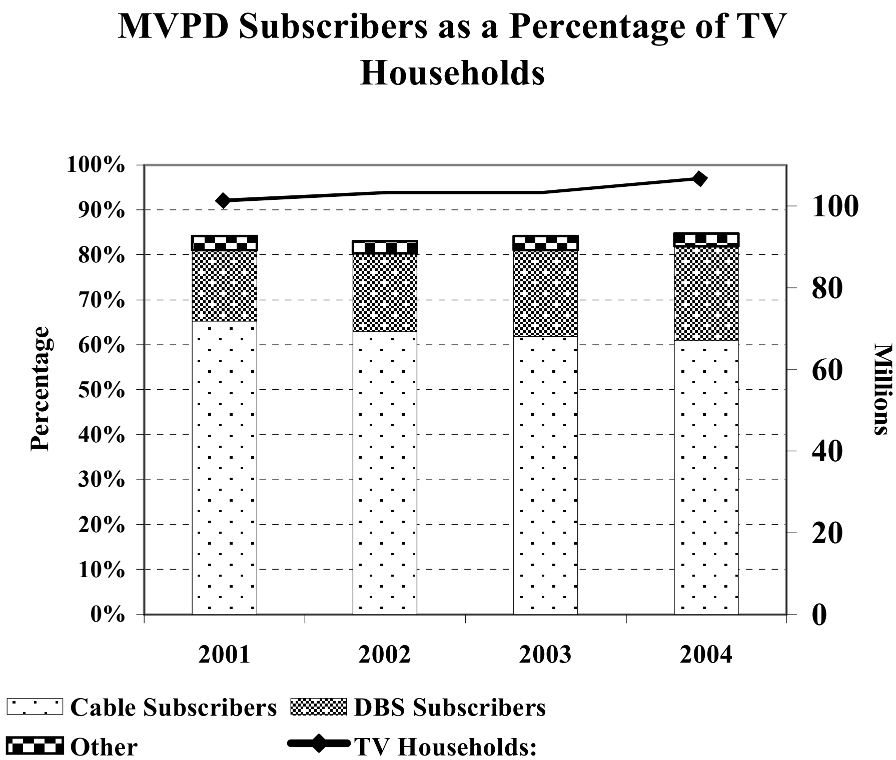
FY 2005 PERFORMANCE INDICATORS

Increase the number of consumers and businesses who have a choice among wireless and wireline service providers



This chart reflects a steady increase in the percentage of U.S. consumers that can choose between multiple wireline and wireless service providers. Specifically, the percentage of U.S. households living in zip codes served by three or more wireline local exchange carriers has climbed from 67% in 2000 to 87% in 2004. Similarly, the percentage of the U.S. population living in counties served by three or more wireless carriers has climbed from 91% in 2000 to 97% in 2004.

Increase the percentage of households with competing providers for multichannel video programming and information services



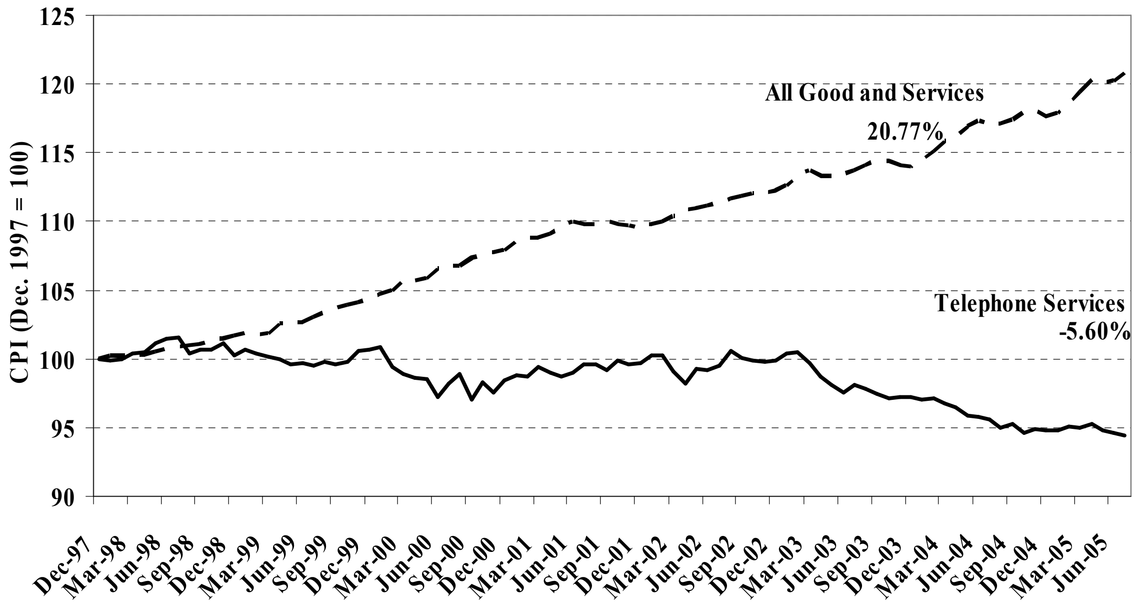
As of June 2004, 85.1% of the 108.4 million total television households subscribed to a multichannel video programming distribution service; 61% of all TV households were cable subscribers; 21% were direct broadcast satellite subscribers; and 2.8% subscribed to other MVPD services. Non-cable MVPD subscribers grew from 22.3 million in June 2003 to 26.2 million in June 2004, an increase of 17.7%.[12] As the chart shows, this growth continues a trend of consumers subscribing to non-cable MVPD services. We believe an increasingly competitive MVPD market has provided consumers with increased choice, better and higher quality services and technical innovation.

Lower relative price for wireless and wireline services

The consumer price for telephone services has declined over the last seven years when compared to the price of other goods and services. The chart below uses data obtained from the Bureau of Labor Statistics to compare the Consumer Price Index (CPI) for Telephone Services with the CPI for all goods and services, using 1997 price levels as the base (equal to 100). The Telephone Services included in this index include Local Telephone Service, Long Distance Charges, Interstate Toll Service, Intrastate Toll Service, and Wireless Telephone Services. In contrast to a 20% increase in the CPI for all goods and services (from 100.2 to 120.6), the Telephone service price index has declined by 5% (99.9 to 94.6) over the past seven years (January 1998 to June 2005).

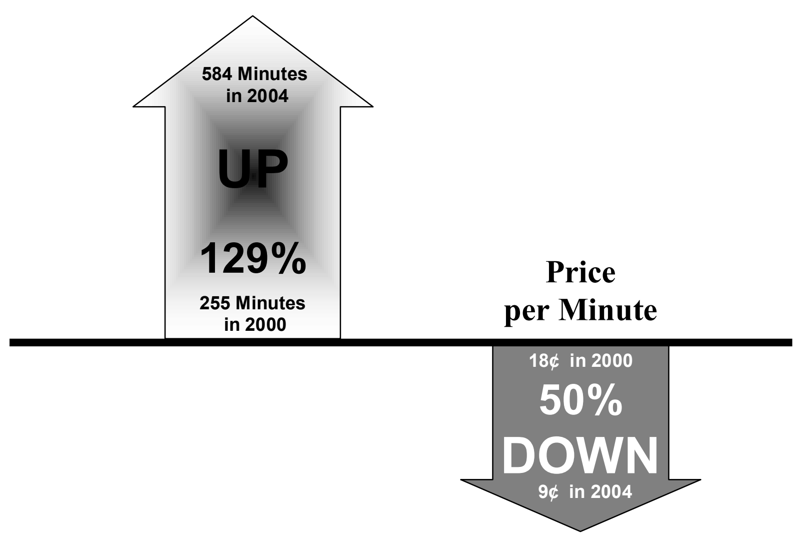
[12] "Eleventh Annual Report on the Status of Competition in the Market for the Delivery of Video Programming," can be found at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-05-13A.doc, Table B-1, page 115.

Consumer Price Indices



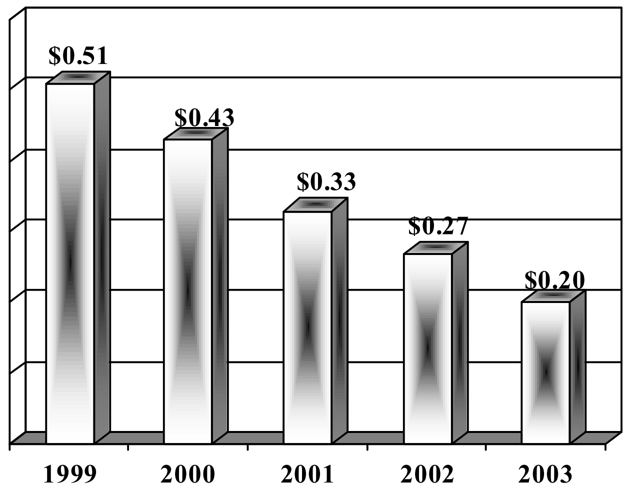
The consumer price for telephone services has declined over the last six years. The average price of wireless telephone calls has fallen over this period as well. As illustrated by the accompanying chart, the average price per wireless minutes of use per month for mobile telephone service, including both individual and business users, has fallen over the past four years, down to nine cents per minute in 2004.

AVERAGE PRICE PER WIRELESS MINUTES OF USE PER MONTH 2000 TO 2004



Decrease the price for international calls

Price Per Minute for An International Call



The average international calling rate to U.S. consumers fell from 27¢ per minute in 2002 to 20¢ per minute in 2003.

SPECTRUM

Strategic Goal:

Encourage the highest and best use of spectrum domestically and internationally in order to encourage the growth and rapid deployment of innovative and efficient communications technologies and services.

The Commission is committed to fostering the rapid deployment of innovative and efficient radio communications technologies and services. Emerging wireless technologies could be used to provide ubiquitous, mobile broadband connections; encourage intermodal competition; and promote public safety and homeland security. The promise of such services, however, is dependent on the availability of spectrum. Because there is growing demand for rival uses of spectrum, creating a policy environment that effectively distributes and manages available spectrum is a critically important strategic objective for the FCC.

FY 2005 PERFORMANCE GOALS

- Ensure that spectrum is used efficiently and effectively.
- Facilitate domestic and international deployment of new spectrum-based technologies and services.
- Generally shift from rigid to flexible policy models.
- Promote ease of access to spectrum by more users.

FY 2005 PERFORMANCE HIGHLIGHTS

- <u>Spectrum for Advanced Wireless Services</u> – The FCC took steps to allocate and establish service rules for 110 megahertz of spectrum that can be used for flexible AWS, including mobile broadband technologies. This spectrum includes 90 megahertz at 1710-1755 MHz and 2110-2155 MHz that is slated for auction and licensing in 2006 and other blocks of spectrum in the 1.9 and 2.1 GHz bands.
- <u>Reallocation of Spectrum from Federal Government to Commercial Use</u> – The agency initiated a rulemaking to implement the CSEA, which allows spectrum auction proceeds to fund the relocation of federal government users in spectrum that has been reallocated to commercial use. Implementation of CSEA will facilitate the planned licensing of 90 MHz of AWS spectrum in 2006 and expedite the availability of spectrum for new wireless services.
- <u>Cognitive "Smart" Radios</u> – The FCC adopted rules addressing cognitive, or "smart," radio technologies that will allow a radio device to adapt its spectrum use in response to its operating environment to implement access to spectrum and efficiency of spectrum use.

- Secondary Markets – The Commission streamlined approval of license transfers, assignments, and spectrum leasing agreements in commercial services. It also implemented rules allowing licensees to make spectrum available to third-party users on a "private commons" basis. These mechanisms reduce regulatory barriers to spectrum access and help ensure that spectrum is available to entities most likely to use it efficiently and effectively.

- 3650 MHz Band – The FCC established rules that provide for nationwide, nonexclusive licensing of terrestrial operations in the 3650-3700 MHz band (3650 MHz) utilizing technology with a contention-based protocol. Allowing such operation with minimal regulatory entry requirements will encourage multiple entrants and stimulate the rapid expansion of wireless broadband services, especially in rural America, and will also protect incumbent satellite earth stations from harmful interference.

- Aeronautical Mobile Satellite Service – The agency sought comment on a regulatory framework for licensing the operation of Aeronautical Mobile Satellite Service systems to communicate with Fixes Satellite Service networks in the Ku-Band. This proceeding could result in more flexible use of the Ku-Band while protecting existing terrestrial and satellite services from harmful interference.

- Additional Spectrum Regulatory Reform – The FCC adopted new rules to reform existing spectrum bands, provide more flexibility to spectrum users, and facilitate deployment of new and innovative spectrum-based services in a variety of other proceedings throughout FY 2005. For example, the Commission adopted a new band plan and flexible rules for the Broadband Radio Service and Educational Broadband Service in the 2.5 GHz band; created a new band plan for broadband air-ground service; initiated a rulemaking to expand geographic areas licensing in the 900 MHz band; and refined the regulatory framework for commercial users to access the 70, 80, and 90 GHz bands.

- Digital Television Receiver Proceeding – The agency accelerated the schedule for implementing the requirement that all new television receivers be capable of receiving over-the-air broadcast DTV signals, advancing the date on which 25-36" medium-size TV sets must include a DTV tuner from July 1, 2007 to March 1, 2007. The agency also sought comment on a proposal to advance the date by which 13-25" small-size TV sets must comply with the DTV tuner requirement. These actions are important to promote the expeditious completion of the DTV transition, and the recovery of 700 MHz spectrum.

- Narrowbanding – The FCC continued its efforts to promote spectrum efficiency in the Private Land Mobile Radio (PLMR) bands by adopting re-channelization plans and establishing procedures for licensees to transition to the new narrower, more spectrally efficient channels within the existing spectrum – a process commonly known as "narrowbanding." The agency adopted narrowbanding procedures in March for 40 PLMR channels that are located in frequency bands allocated primarily for Federal use and for which the National Telecommunications and Information Administration had previously set narrowbanding deadlines for such Federal operations.

- New Technology Projects – The agency completed several leading edge technology projects that resulted in first-time authorizations for technology using Software Defined Radios, Hearing Aid Compatibility compliance, and new ultra-wideband technologies for communications devices. The agency also conducted extensive testing of new technologies in the Commission's laboratory to support rule-making activities. These tests included investigations of the new ultra-wideband devices, Broadband over Powerline implementations, and DTV tuner evaluations.

- Ancillary Terrestrial Component – The FCC affirmed its 2003 decision to permit Mobile Satellite Service providers in three frequency bands to provide an ancillary terrestrial component (ATC) to their satellite systems. The agency also granted a first-time authorization for ATC operation, which should allow the licensee to offer high quality, affordable mobile services to users inside buildings and in urban areas, as well as ubiquitous coverage in rural areas.

- Equipment Authorization – In conjunction with the Telecommunications Certification Bodies (TCBs), the FCC issued 6807 Equipment Authorization Grants during FY 2005 (as of August 8, 2005). The agency closely monitored and oversaw the TCBs, which included giving TCBs extensive guidance through workshops, training material, monthly conference calls and web-based tools for rapid interpretation of technical requirements. The agency handled approximately 2000 inquiries from TCBs during the year.

- Satellite Licensing Streamlining – The FCC adopted streamlined "non-routine" earth station applications, most often used for satellite-based broadband Internet access services.

- Broadband over Power Line (BPL) – The agency adopted rules for carrier current systems that provide access to broadband services using electric utility companies' power lines. These rules will ensure that BPL can provide broadband services to homes while avoiding harmful interference to other spectrum users.

- Ultra-wideband Transmission Systems (UWB) – The FCC adopted an order modifying the rules for ultra-wideband radio systems to be operated on an unlicensed basis in existing frequency bands. UWB technology can be used for a wide variety of new applications, including imaging systems, vehicle radars, location devices, security systems, and high-speed, short-range data and video communications products.

- Interference/Cross-Border Programming – The agency issued a Notice of Apparent Liability (NAL) proposing a $25,000 forfeiture against Uniradio Corporation for providing program material from a studio located in the U.S. to a Mexican AM broadcast station in willful and repeated violation of the terms and conditions of its authorization. The operations of the Mexican AM station had not been coordinated with and approved by the International Bureau in accordance with the applicable U.S.-Mexico treaty and caused harmful interference to licensed U.S. broadcast stations.

- Enforcement of Equipment Marketing Rules – The agency also issued an NAL proposing a $75,000 forfeiture against ACR Electronics, Inc. for marketing unauthorized radio frequency equipment (personal locator beacons). The agency also adopted a consent decree terminating an NAL proceeding initiated against Samson Technologies, Inc. for importing and marketing radio frequency equipment (multi-track music recording devices) that did not comply with the FCC's technical standards. Under the consent decree, Samson agreed to implement a compliance plan to ensure future compliance with the equipment marketing rules and to make a $26,500 voluntary contribution to the Treasury.

- Technical Standards for Satellite Delivered Network Signals – The FCC initiated a Notice of Inquiry regarding the need for establishing a digital signal strength standard and testing procedures used to determine whether households are eligible to receive distant broadcast DTV network signals from satellite communications providers. This proceeding will culminate in a report to Congress in December 2005.

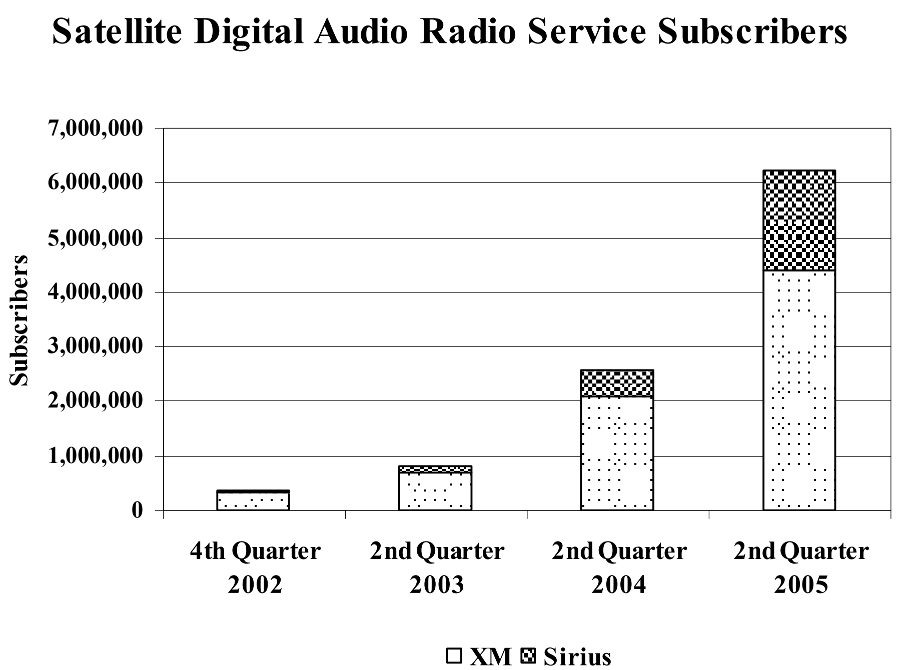
- ITU Ultra-Wideband Task Group – In May 2005, the agency organized an international meeting of the ITU Ultra-Wideband (UWB) Task Group (TG 1/8). Approximately 150 delegates from 35 countries progressed work on standards related to UWB characteristics, measurements, compatibility with other services, and regulatory issues.

- World Radiocommunication Conference proceedings – The agency implemented decisions from the World Radiocommunication Conference (Geneva, 2003) (WRC-03) that affected operations in the frequency bands between 5900 kHz and 27.5 GHz. This action allowed the Commission to conform its rules, to the extent practical, to the decisions the international community made at WRC-03 to promote new and expanded services and provide significant benefits to the American public. Implementation of WRC-03 matters via this decision, and in conjunction with prior orders that addressed other discrete WRC-03 matters, permits the Commission to prepare for the upcoming WRC-07 World Radiocommunication Conference.

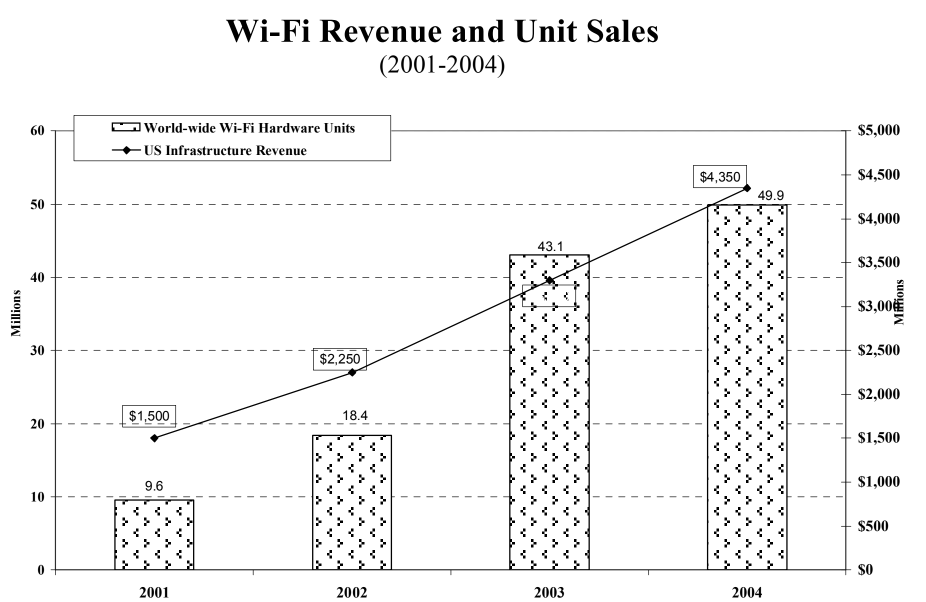
- Mutual Recognition Agreements – The FCC made progress in its effort to expand deregulation of equipment authorization program through Government to Government Mutual Recognition Agreements. This year the work involved negotiations with the governments of Japan, Korea, Singapore and Hong Kong. This effort is a partnership with the U.S. Trade Representative.

FY 2005 PERFORMANCE INDICATORS

Increase the number of subscribers to new services that make efficient use of spectrum



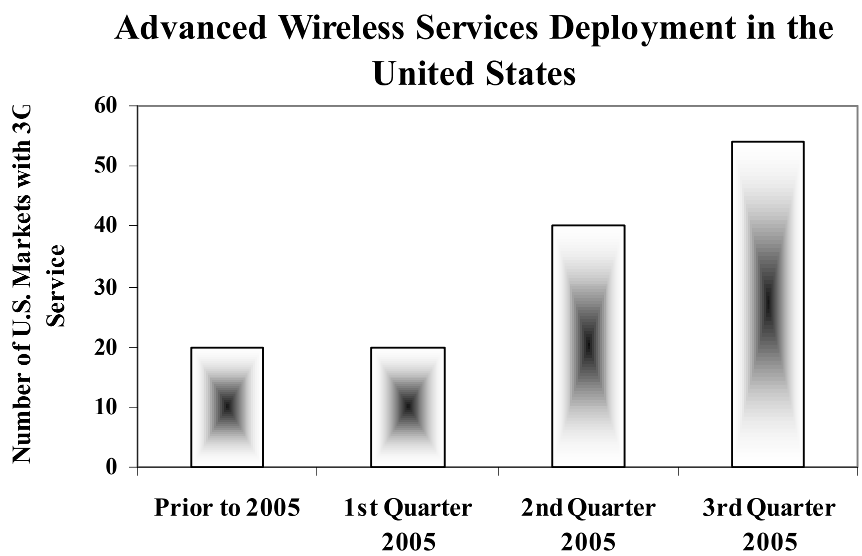
This chart demonstrates subscriber growth in the SDARS from the fourth quarter of 2002 to the second quarter of 2005. Since October 2004, the number of SDARS subscribers has almost doubled, increasing from 3,162,289 subscribers at the beginning of October 2004 to 6,214,626 subscribers at the end of June 2005.



Sales of new equipment can also indicate an increase in the number of subscribers to new services that make efficient use of spectrum. Wi-Fi hardware unit sales increased by 420% from 9.6 million in 2001 to 49.9 million in 2004. Wi-Fi hardware revenue increased by 121% from $1,800 million in 2001 to $3,977 million in 2004. US Wi-Fi infrastructure revenue increased by 190% from $1,500 million in 2001 to $4,350 million in 2004 based on the following yearly amounts: 2001 - $1,500 million; 2002 - $2,250 million; 2003 - $3,300 million; 2004 - $4,350 million.

Increase the deployment of Third-Generation wireless networks.

Wireless carriers have begun to deploy Advanced Wireless Services (AWS) technologies that provide high-speed data to mobile users in several major U.S. markets. This chart shows growth in the number of markets in which AWS technologies have been deployed in FY 2005.



Advance U.S. positions through international negotiations and enforcement of treaties.

The following tables summarize the results of the Commission's international negotiations and enforcement of treaties related to spectrum during FY 2005:

<table>
<tr><th colspan="3">International Negotiations
The World Radiocommunication Conferences (WRCs) are assembled every three to four years under the auspices of the International Telecommunication Union (ITU) and are tasked with revising treaty text in the form of Radio Regulations, which bind countries once ratified. The next World Radiocommunication Conference is scheduled to convene in 2007. The FCC participates in WRCs for two main reasons: (1) to secure spectrum allocations that allow for new telecommunications services to enter the market; and (2) to protect incumbent telecommunication services from interference.</th></tr>
<tr><th colspan="2">Agenda Items
(Major WRC-07 Issues)</th><th>Status</th></tr>
<tr><td rowspan="6">2007 World Radiocommunication Conference (WRC-07)

The Advisory Committee for WRC-07 (WAC) has created five informal working groups to look at issues on the agenda for the 2007 World Radiocommunication Conference (WRC-07). In preparation for WRC-07, each of the Informal Working Groups (IWGs) will develop draft preliminary views and subsequent draft proposals to be presented to the full Advisory Committee for approval.</td><td>The various conference agenda items have been initially assigned to the informal working groups as follows:</td><td>The third, fourth, fifth, sixth and seventh meetings of the FCC Advisory Committee for WRC-07 were held on November 10, 2004, February 23, 2004, April 4, 2005, and June 22, and September 14, 2005, respectively. At these meetings, eleven "draft preliminary views" and seven "draft proposals" were approved concerning twelve agenda items. The next meeting is scheduled for December 9, 2005.</td></tr>
<tr><td>Terrestrial and Space Science Services (Agenda Items 1.2, 1.3, 1.5, 1.14, 1.16, & 1.20)</td><td>Approved four recommendations – Draft proposals for WRC-07 Agenda Items 1.2, 1.5 and 1.20 and modifications to NTIA draft preliminary views on WRC-07 Agenda Item 1.20. Next meeting is scheduled for early November.</td></tr>
<tr><td>Satellite Services including those related to High Altitude Platform Stations (HAPS) (Agenda Items 1.6 (Resolution 415), 1.7, 1.8, 1.17, 1.18, 1.19, & 1.21)</td><td>Approved five recommendations – Draft proposals for WRC-07 Agenda Items 1.6, 1.8, and 1.18 and 1.19 and modifications to NTIA draft preliminary views on WRC-07 Agenda Item 1.17. Next meeting is scheduled for November 30, 2005.</td></tr>
<tr><td>International Mobile Telephone (IMT-2000)

2.5 GHz (Agenda Items 1.4 & 1.9)</td><td>Approved two recommendations – Draft preliminary views on WRC-07 Agenda Item 1.9 comments on an NTIA draft proposal for WRC-07 Agenda Item 7.2. Next meeting is scheduled for November 2, 2005.</td></tr>
<tr><td>Broadcasting and Amateur Services (Agenda Items 1.6 (Resolution 414), 1.11, 1.13, 1.15, & 7.1 (Recommendation 952)</td><td>Approved three recommendations – Draft preliminary views on WRC-07 Agenda Items 1.6, 1.11 and 1.13. Next meeting scheduled for early November.</td></tr>
<tr><td>Regulatory Issues (Agenda Items 1.1, 1.0, 1.12, 2, 3, 5, 6, & 7.1)</td><td>Approved five recommendations – Draft preliminary views on WRC-07 Agenda Items 1.1, 1.10 and 1.12, one draft proposal for WRC-07 Agenda Item 1.6 and modifications to NTIA draft preliminary views on WRC-07 Agenda Item 1.12. Next meeting scheduled for October 20, 2005.</td></tr>
</table>

ENFORCEMENT OF TREATIES

Enforcement of Treaties	
Treaties (Significant)	**Status/Outcome** (how U.S. benefited from the outcome of signing the treaty)
CANADA Amendment to Digital Television LOU permitting public safety use of TV channels 63 and 68	Industry Canada and the FCC completed and signed an amendment to the existing Digital Television Letter of Understanding permitting TV channels 63 (764-770 MHz) and 68 (794-800 MHz) to be used for public safety mobile and fixed operations.
Sharing Arrangement for public safety land mobile and fixed operations along Canada-US border	The United States and the Government of Canada also agreed to an new arrangement for sharing, between Industry Canada and the FCC, the use of 764 to 776 MHz (TV channels 63 and 64) and 794 to 806 MHz (TV channels 68 and 69) for land mobile and fixed operations along the Canada-United States border. This arrangement was adopted as an amendment to the 1962 United States-Canada Agreement concerning coordination and use of radio frequencies above 30 MHz ➢ These two agreements will facilitate the deployment of public safety systems on TV channels 63 and 68 near the U.S.-Canada border, providing public safety licensees near the border with much-needed additional spectrum as well as interference-free operations and interoperability. The Digital TV LOU will need to be further amended before public safety operations can occur on TV channels 64 and 69.
SCP between Nextel Comm of U.S. and Telus Mobility of Canada	Drafted Special Coordination Procedure (SCP – specially negotiated and limited understandings that permit extraordinary use of the spectrum resource beyond the terms that are generally recognized in existing arrangements and agreements) between U.S. and Canadian Enhanced Specialized Mobile Radio Service (ESMR) licensees. This SCP would replace an existing SCP dated October 26, 2001. The draft revised SCP is awaiting final approval by the parties. ➢ This SCP includes additional channels and corrects the inadvertent omission of the 100-140 km U.S. border zone in a specific region along the U.S-Canada border. It would improve the efficient use of spectrum and facilitate operations by ESMR users in the U.S. and Canada.
New Sharing Arrangement Covering the 806-890 MHz and 1.9 GHz MHz Bands	Currently under negotiation with Canada are modifications to the existing 800 MHz Land Mobile Protocol and the 1.9 GHz Protocol. ➢ The purpose of these negotiations is to eliminate harmful interference to public safety and private land mobile and fixed systems in the US-Canada border area.

MEXICO MOU on FM operations near TV Channel 6	New agreements drafted and under active negotiation with Mexico include: • Memorandum of Understanding between the FCC and the Secretaria de Comunicaciones y Transportes of Mexico (SCT) related to the use of FM broadcasting stations on channels 201 through 206 (88.1 – 89.1 MHz) located within proximity to television broadcast operations on Channel 6 (82-88 MHz) within the area along the common border.
MOU on Low Power TV and other services in the 700 MHz band	• Memorandum of Understanding between the FCC and the SCT on the use of low power television stations on channels 2 through 69 (54-72 MHz, 76-88 MHz, 174-216 MHz, 470-806 MHz) within the area along the common border. ➢These agreements would permit the authorization of new television and FM stations (educational FM stations in the U.S.) along the border, while providing appropriate interference protection to existing TV stations
SCP between Nextel Comm of U.S. and SRM S.A. de C.V. and SISCOT S.A. de C.V. of Mexico	A revised SCP between U.S. and Mexican ESMR licensees was coordinated and jointly accepted by the FCC and SCT/Mexico. ➢This SCP, which includes additional channels along the U.S-Mexico border, will improve the efficient use of spectrum and facilitate operations by ESMR users in the U.S. and Mexico.
AM Interference	After numerous discussions, FCC, Department of State, and SCT have reached a multi-tiered resolution for eliminating interference to U.S. AM stations from unapproved Mexican operations. Operation of the interfering stations has ceased.
Amendment to 800 MHz and 1.9 GHz Protocols	Currently under negotiation with Mexico: ➢Modification to the 800 MHz Land Mobile Protocol and 1.9 GHz Protocol. The purpose of these negotiations is to eliminate harmful interference to public safety and private land mobile and fixed systems in the U.S.-Mexico border area.
Amendments to Protocol in the 700 MHz bands	➢Modification concerning the Use of the 698-746 and 746-806 MHz Bands for fixed and mobile services along the common border.
U.S. – Mexico High Level Consultative Committee on Telecommunications (HLCC)	FCC Chairman and staff participated in a meeting in Mexico City of the HLCC. ➢A joint statement was issued from the meeting recognizing the need to coordinate sharing of spectrum in an equitable and expeditious manner to ensure the efficient development and adequate functioning of radio systems near the border.

MEDIA

Strategic Goal:

Revise media regulations so that media ownership rules promote competition and diversity in a comprehensive, legally sustainable manner and facilitate the migration to digital modes of delivery.

The FCC develops and modifies media regulations and policies to address a changing marketplace. It is a challenging task due to: 1) changing ownership patterns; 2) legal challenges to FCC rules and policies; 3) converging markets and industries; and 4) increasingly rapid changes in technologies employed by service providers.

These factors, consistent with statutory directives, have led the FCC to place a high priority on fully understanding the current media marketplace so that it can appropriately reformulate its media ownership regulations and competition policies. The FCC will continue to examine whether current media regulations are achieving statutory policy objectives and will determine how changes in regulations may affect competition, diversity, and localism.

The transition to digital broadcast technologies ensures that the public is served by an efficient and competitive set of media services. In addition, the spectrum recovered by the transition to digital television can be used for other important services, such as public safety and advanced wireless services. The FCC works to facilitate the timely development and deployment of digital services.

FY 2005 PERFORMANCE GOALS

- Develop a sound analytic foundation for media ownership rules.
- Facilitate the transition to digital television and radio.
- Clarify and ensure compliance with general media obligations.

FY 2005 PERFORMANCE HIGHLIGHTS

- <u>Digital Television Transition</u> – The FCC made progress in transitioning from analog to digital television broadcasting. The first round took place in a multi-round channel election process that will determine the permanent digital channels of the nation's 1,700 TV stations. To further its efforts to ensure that viewers are able to receive over-the-air DTV services, the Commission accelerated the date by which all mid-size television receivers must include a DTV tuner and proposed an earlier date by which all TV receivers must have DTV tuners. Public comment on that proposal is now under review. The agency adopted a Second Report and Order in the Carriage of Digital Television Broadcast Signals proceeding, which resolved significant issues related to cable carriage of DTV broadcast signals. The agency also released a Report and Order addressing the obligations of DTV licensees to provide educational programming for children and to protect children from excessive and inappropriate commercial messages.

The Media Bureau issued a report regarding television households that only receive broadcast television via over-the-air antenna.

- DTV Outreach – The FCC kicked off an education campaign to highlight the transition to digital television. This major initiative brought all segments of the television industry together to educate the public on the importance of the DTV transition and how it will affect them in the coming years.

- Plug and Play – The agency adopted a Second Report and Order in the Commercial Availability of Navigation Devices proceeding to promote competition and assure the commercial availability of cable-ready DTV equipment. The order maintained the ban on cable operator deployment of integrated set-top boxes, but deferred the effective date by a year, from July 2006 to July 2007. The order also established detailed reporting requirements for cable operators on the development of downloadable software security.

- Cable Ownership Rules – The agency issued a Second Further Notice of Proposed Rule Making in the Cable Horizontal and Vertical Ownership Limits proceeding. The Notice seeks comment on proposals for limiting the reach of a single cable operator and channel occupancy limits for affiliated programming. It also invites comment on recent industry developments industry.

- Low Power FM – The Low Power FM (LPFM) service provides an opportunity for noncommercial educational entities and public safety and transportation organizations to obtain a broadcast license. The Commission held a forum on LPFM to understand the challenges LPFM stations face. The agency also issued an Order on Reconsideration modifying rules governing minor changes and technical amendments for LPFM stations and sought comment on a number of technical and ownership issues related to LPFM.

- Satellite Home Viewer Extension and Reauthorization Act of 2004 – SHVERA amended copyright laws and the Communications Act to aid the competitiveness of satellite carriers and expand program offerings for satellite subscribers. SHVERA required the Commission to initiate several rulemakings and one Inquiry Report:

  - SHVERA provides satellite carriers with the option to offer out-of-market stations to subscribers in communities in which the station is or has been deemed "significantly viewed" based on over-the-air viewing. The agency issued a Notice of Proposed Rule Making and List of Significantly Viewed stations and their related communities. The final order and rules will be adopted by December 2005, as required by statute.

  - The agency established a reciprocal good faith bargaining requirement for multi-channel video programming providers to mirror the good faith negotiation requirement placed on broadcasters when the parties discuss satellite carriage of local broadcast stations. The agency completed the rulemaking to implement this requirement.

- The agency complied with SHVERA's requirement to revise existing rules concerning satellite carriers' notifications to television broadcast stations and signal testing.

- The agency met SHVERA's requirement to conduct an inquiry and submit a report to Congress concerning the competitive effects of certain rules and statutory provisions, including existing retransmission consent and exclusivity rules, as well as provisions adopted in SHVERA concerning satellite carriage of out-of-market or distant signals.

- The agency adopted a Notice of Inquiry regarding the adequacy of the digital signal strength standard and testing procedures used to determine whether households are eligible to receive distant broadcast DTV network signals from satellite communications providers.

- The agency complied with SHVERA's directive to establish new satellite broadcast carriage requirements for Alaska and Hawaii and to promulgate implementing rules.

- Enforcement – The FCC continued to meet statutory and internal deadlines for its enforcement responsibilities for broadcast, satellite, and cable operating matters. The agency initiated more than $5 million in indecency enforcement actions including a $3.5 million consent decree with Viacom, Inc. and a $1,183,000 NAL against broadcast television stations affiliated with the Fox Television Network for the April 7, 2003 broadcast of "Married by America." The Viacom consent decree represents the largest indecency-related settlement in the FCC's history, while the "Married by America" NAL represents the largest NAL issued to broadcast licensees. The agency entered into consent decrees with various cable network programmers and cable operators totaling $1.5 million relating to possible violations of the Commission's rules regarding commercial limits during children's television programming. The agency also issued NAL totaling $153,000 against broadcast television stations for violating rules requiring visual access to emergency information. These NAL were the first to be issued for such violations. Further, the agency issued NAL, Forfeiture Orders, and Consent Decrees totaling over $400,000 for violations of FCC rules regarding broadcast of telephone conversations, public inspection file, main studio and prohibited contest practices.

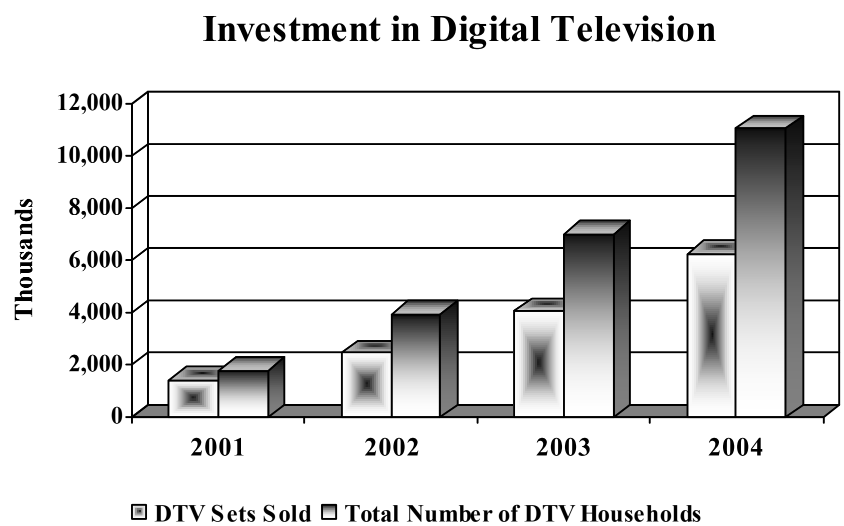
- International Matters – The FCC maintained a dialogue with policy makers around the globe, as well as with research communities and industry groups, on regulation, competition, and new technologies in the media marketplace. Agency representatives guided dialogue in the OECD toward inclusion of media regulatory and policy issues in its activities, and helped organize and participate in an OECD conference on convergence and the impact of broadband on telecommunications and broadcast regulation. International Bureau staff led efforts on broadcasting services within ITU-R Study Group 6 and its working parties.

- Cross-Border Activities with Mexico and Canada – The agency continued negotiations with Canada and Mexico to create comprehensive broadcast agreements that will facilitate the deployment of digital service. The agency employed existing DTV Memorandums of Understanding with Canada and Mexico to ensure that broadcasters can maximize facilities along the borders. The Commission's dialog with Mexico has led to their adoption of the U.S. DTV standard. Discussions were also ongoing to permit Digital Audio Broadcasting operations in the border areas. Other cross-border actions included coordinating with Mexico on a technical solution to interference in the U.S. caused by Mexican AM broadcasts. The FCC continues to monitor the situation closely to ensure that the directional antenna systems and technical details of the coordinated solution are built and operated in accordance with the official notifications that have been approved. Also, the agency granted 13 applications and four requests for special temporary authority pursuant to Section 325(c) to permit delivery of programs to foreign broadcast stations.

FY 2005 PERFORMANCE INDICATORS

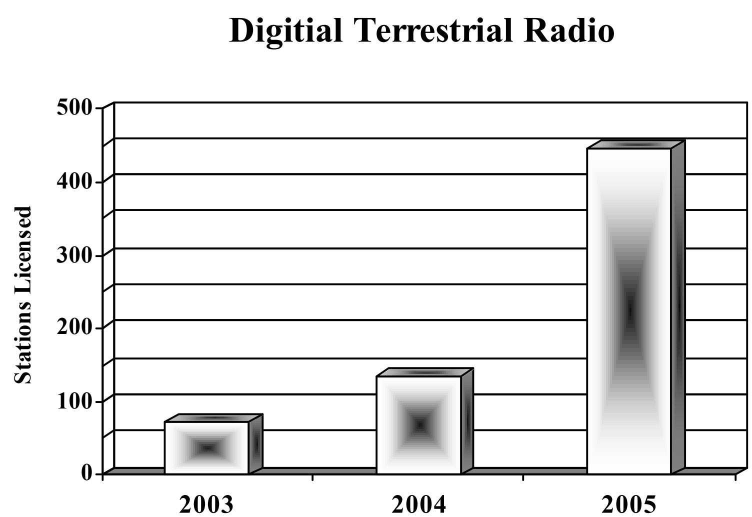
Continue progress in the transition to digital television and radio

At the end of FY 2005, a total of 1525 of 1687 licensed DTV stations (90%) were on the air with DTV operations. Of these, 789 are licensed digital facilities or facilities with program test authority and 736 are operating pursuant to Special Temporary Authority.



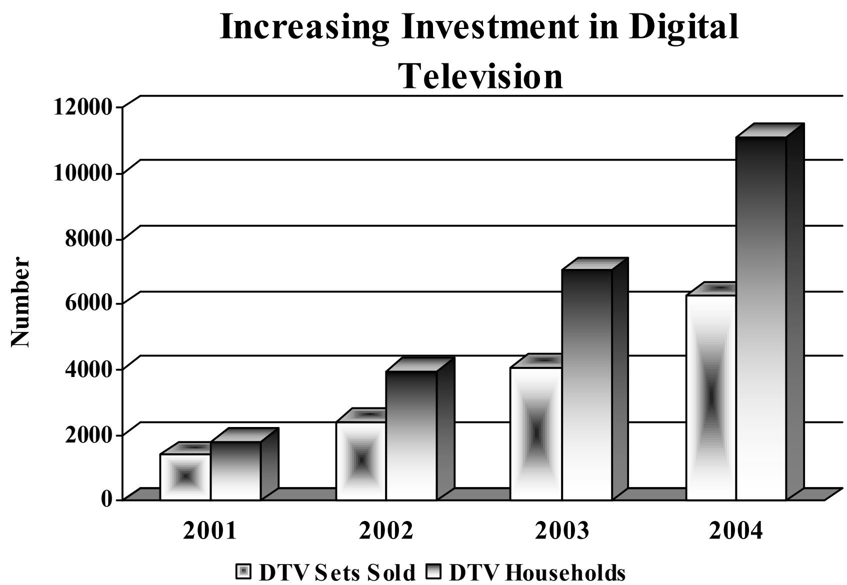
Continue the transition to Digital Terrestrial Radio

Implementation of AM and FM in-band, on-channel (IBOC) hybrid radio grew steadily during FY 2005, rising to a total of 447 stations operating with digital radio authorizations by July 31, 2005. These stations are located in 37 of the top 50 markets in the country and reach more than 23 million potential listeners.



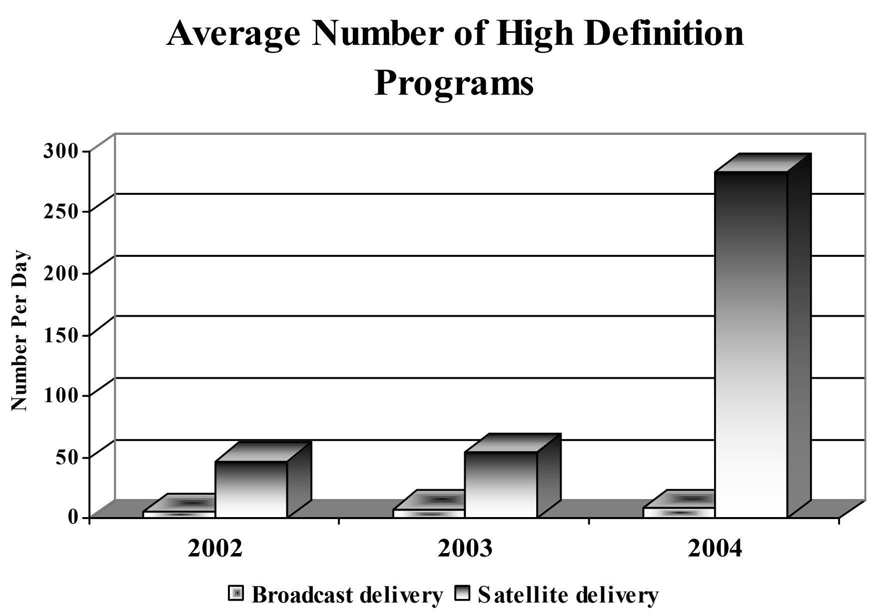
Increase the investment by consumers in digital equipment

The number of new DTV sets sold to consumers has increased by 347%, from 1.4 million DTV sets sold in 2001 to 6.27 million DTV sets sold in 2004. The total number of households with DTV sets has increased by 839%, from 1.18 million in 2001 to 11.09 million in 2004.



Increase the deployment of digital programming, equipment, and infrastructure

In 2004, broadcast networks carried an average of 8.8 programs in high definition (HD) format each day, and satellite-delivered networks distributed an average of 283.4 HD programs per day. This represented a one-year increase in HD programs from satellite-delivered networks of 424%.



HOMELAND SECURITY

Strategic Goal:

Provide leadership in evaluating and strengthening the Nation's communications infrastructure, in ensuring rapid restoration of that infrastructure in the event of disruption, and in ensuring that essential public health and safety personnel have effective communications services available to them in emergency situations.

In the aftermath of the September 11, 2001 terrorist attacks, Americans were reminded of the importance of reliable, readily available communications – for emergency personnel responding to a tragedy, for individuals communicating with family and friends, and for the nation as a whole, anxious to stay informed of ongoing events on a minute-by-minute basis. The telecommunications, broadcast, and cable industries that the Commission regulates are critically important to our national well-being in times of crisis. The reliance of numerous other critical industries, including banking, transportation, and energy, on the telecommunications infrastructure as part of their operational backbone further underscores the importance of that backbone and the FCC's role in ensuring its security.

FY 2005 PERFORMANCE GOALS

- Promote a reliable, secure, and survivable communications infrastructure for the United States.

FY 2005 PERFORMANCE HIGHLIGHTS

- <u>E911 Proceedings</u> – The FCC enhanced American's safety in the E911 arena by undertaking several actions, including:

  - Adopting rules broadening the scope of E911 services to include mobile satellite services, certain telematic services, and resold and prepaid calling card services. The agency initiated a proceeding to determine whether IP-enabled voice services should be required to comply with our E911 rules, and adopted additional requirements related to E911 services, including reporting requirements for mobile satellite service operators responsible for implementing a call center.

  - Requiring interconnected VoIP service providers to deliver 911 calls for all customers and provide emergency operators with the call back number and location information of their customers. The agency adopted an NPRM seeking comment on additional steps it should take to ensure that providers of VoIP services that interconnect with the nation's PSTN provide ubiquitous and reliable E911 service.

  - Reaching out to state, local, and tribal government entities, consumer groups, public safety organizations, and industry representatives to facilitate widespread consumer awareness of new FCC rules regarding the applicability of E911 requirements to "interconnected" VoIP services. The FCC's VoIP/911 messaging has been incorporated into the FCC's broad-based VoIP consumer education campaign.

- 4.9 GHz Interoperability Proceeding – In November 2004, the agency reconsidered its 2003 decision adopting service and licensing rules for the band to accommodate a wide variety of broadband wireless applications in support of public safety, including, for example, wireless local area networks for incident scene management, dispatch operations, and vehicular operations. The Commission modified the technical standards to make the equipment easier to manufacture and more affordable. The agency also granted a number of waivers to permit airborne operations.

- 800 MHz Public Safety Communications Proceeding – In December 2004, the agency revised and clarified portions of its plan to resolve the ongoing problem of interference to public safety communications in the 800 MHz band. Once implemented, this plan will help ensure interference-free operations for policemen, firemen, and other public safety personnel by realigning the 800 MHz band to separate incompatible technologies used by public safety and commercial providers.

- Broadcast Auxiliary Service (BAS) – The FCC intends to release a Public Notice announcing streamlined procedures to ease the licensing paperwork and burden for BAS users vacating the 1990 – 2025 MHz band, as part of the Commission's actions to eliminate interference to public safety and other land mobile communication systems operating in the 800 MHz band.

- Automatic Identification Systems (AIS) Proceeding – The agency proposed to identify spectrum for AIS in the United States and its territorial waters. (AIS is a maritime navigation communications system for use in collision avoidance and vessel monitoring and tracking.)

- 700 MHz Proceeding – The agency adopted rules to support the transition to narrowband technology in the 764-776 MHz and 794-806 MHz public safety bands, and conform certain technical rules governing these frequencies to industry consensus standards.

- Earth Stations on Vessels Proceeding – Adopted licensing and service rules for earth stations on vessels in the C-band and the Ku band, including coordination, interference criteria, and other safeguards to protect terrestrial fixed microwave operations in the C-band, which include public safety and critical infrastructure users.

- Wireless Enhanced 911 (E911) Proceedings – Among the FCC's actions in FY05 were:

  - Adopted orders addressing numerous requests for relief from the Commission's wireless E911 Phase II requirements filed by or on behalf of small (Tier III) wireless carriers.

  - Submitted a report to Congress pursuant to the ENHANCE 911 Act on the status of deployment of E911 Phase II services by Tier III service providers.

- Intelligence Reform Act – Pursuant to Intelligence Reform and Terrorism Prevention Act, the Commission is assessing the short-term and long-term spectrum needs of emergency response providers, including the operation and administration of a potential nationwide interoperable broadband mobile communications network. The agency issued a public notice in March 2005, seeking comment to help prepare this study.

- Licensing – The agency processed over one-hundred thousand applications for private land mobile and private microwave radio systems, many of which are used by state or local governmental entities and others for the sole or principal purpose of protecting life, health, and property. Critical infrastructure industries also use these licensed radio systems to meet a wide range of communication requirements, from day-to-day business activities, such as dispatching and diverting personnel or work vehicles, coordinating the activities of workers and machines on location, or remotely monitoring and controlling equipment, to coordinating people and materials, important safety and security needs, and quick response in times of emergency. The agency also processed tens of thousands of applications for marine and aviation radio systems.

- Cognitive "Smart" Radios – The agency adopted rule changes for cognitive, or "smart," radio systems to facilitate growth in deployment of radio equipment employing cognitive radio technologies. Given their technical and operational flexibility, smart radios improve use of vacant spectrum channels

- Spectrum Refarming – The agency adopted a Report and Order implementing a timetable for migrating most land mobile operations from 25 kHz channels to 12.5 kHz channels to create additional usable channels. The agency sought further comment relating to ultimately migrating to 6.25 kHz channels.

- Rural Health Care Support – The agency adopted rules that strengthened rural telemedicine and telehealth networks.

- Network Outage Reporting – The FCC's Network Outage Reporting Report and Order became effective, expanding outage reporting requirements to wireless and satellite facilities, thereby ensuring that the FCC and other organizations have information to ensure the integrity of communications networks. For example, these data were used as a critical analytical tool during the service disruptions caused by the 2005 hurricanes in the Gulf Coast.

- Network Reliability and Interoperability Council (NRIC) – The FCC oversees the work of the NRIC, an industry advisory committee whose mission is to ensure the security and sustainability of the nation's critical telecommunications infrastructure. NRIC has produced over 700 "best practices" for protecting the nation's communications infrastructure, both physical and cyber, against attack. In December 2004, the NRIC issued a report updating existing "best practices" related to cybersecurity, including the deletion, modification, or addition of best practices that address cybersecurity threats to the nation's communications infrastructure. The NRIC also adopted reports addressing network architecture issues for emergency communications in the year 2010, providing an analysis of the gaps between existing "best practices" and those needed to improve the reliability of wireless and public data networks.

- Best Practices – The Enforcement Bureau's field staff has undertaken the task of spreading NRIC "best practices" beyond the beltway. Specifically, after training with NRIC's Designated Federal Official, the field staff has conducted on-site seminars for relevant staff in smaller phone companies to help them understand the work of NRIC and how the "best practices" can be implemented to benefit the public.

- ITU-T Study Group 17 (March 28 – April 1, 2005) – FCC staff participated in the ITU's Cybersecurity Symposium II held in conjunction with the Study Group 17 meeting.

- 811 Proceeding – The FCC designated 811 as the nationwide number to protect pipelines and utilities from excavation damage.

- Radio Direction Finding – The agency provided ongoing radio direction finding assistance, specialized technical advice, and technical assistance to federal public safety and homeland security agencies.

- Emergency Alert System (EAS) Proceeding and EAS Enforcement – The agency continued to work on a proceeding concerning how the EAS can be improved or supplemented to better meet the nation's needs to alert citizens during crises. Throughout FY 2005, the agency strictly enforced EAS equipment and testing requirements, taking or proposing approximately 126 enforcement actions for EAS violations.

- E911 Enforcement – The agency issued a $50,000 NAL to Sprint PCS for failing to provide E911 Phase I service within six months of a request by Santa Cruz County, Arizona on behalf of two Public Safety Answering Point (PSAP) entities in apparent willful and repeated violation of Section 20.18(d) of the Commission's Rules. Subsequently, the agency adopted a Consent Decree terminating this NAL proceeding, in which Sprint PCS agreed to implement a compliance plan to ensure future compliance with the E911 rules and to make a $35,000 voluntary contribution to the Treasury.

- Telecommunications Service Priority (TSP) – The agency sponsored a TSP summit with relevant government and public safety stakeholders, featuring panel discussions on the importance of the TSP program for emergency services and how the TSP program can be improved.

- Priority Services – FCC staff chaired an interagency working group whose mission is to improve the effectiveness of the Federal priority communications programs and to increase participation in these programs by key Federal, state, and local agencies. Commission staff also participated on a panel before a joint meeting of the National Association of Regulatory Utility Commissioner's Committee on Telecommunications and the Ad Hoc Committee on Critical Infrastructure entitled "Facilitating Public Safety Subscription to the TSP Program."

- Training – The agency sponsored a two-day continuing legal education session on homeland security issues.

- Continuity of Operations – The agency participated in the Federal government-wide Exercise Pinnacle to test the agency's continuity of operations capability.

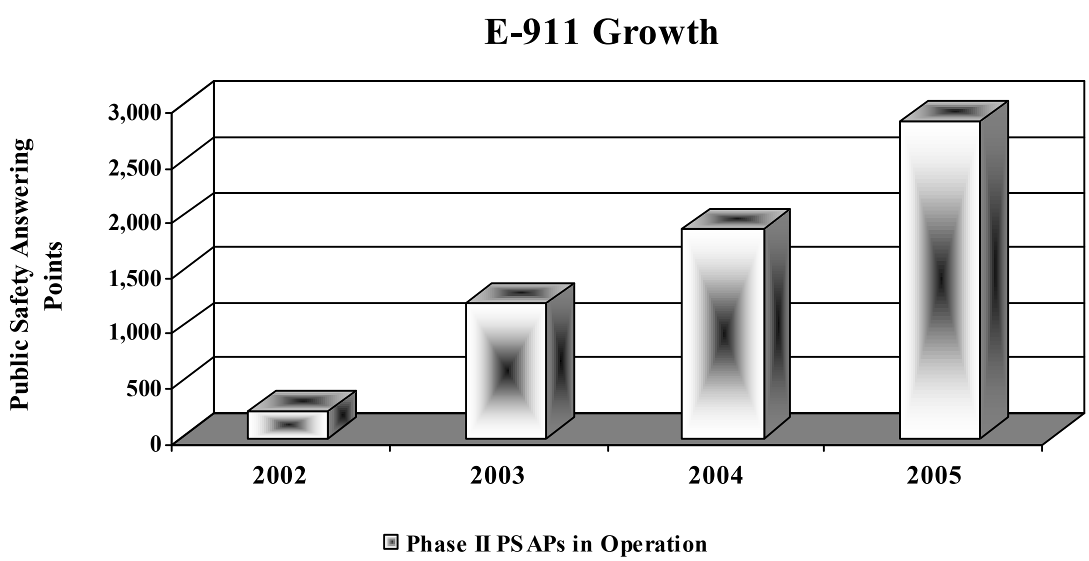
- Tribal Coordination – The agency held numerous meetings, workshops, and presentations in Washington, D.C., and throughout the country with tribal governments or representatives to discuss critical communications infrastructure protection and public safety communications interoperability. Activities included an October 2004 presentation on homeland security at the National Congress of American Indians, hosting a November 2004 workshop and planning session on Indian Telecommunications Initiatives, and meeting with representatives of California Tribal Police Chiefs to discuss their participation in the TSP program.

- Federal Coordination – The agency participated in an interagency meeting on the Emergency Alert System. Discussions included the Draft Plan and the necessity for tribal governments to participate in critical communications infrastructure protection and public safety communications interoperability.

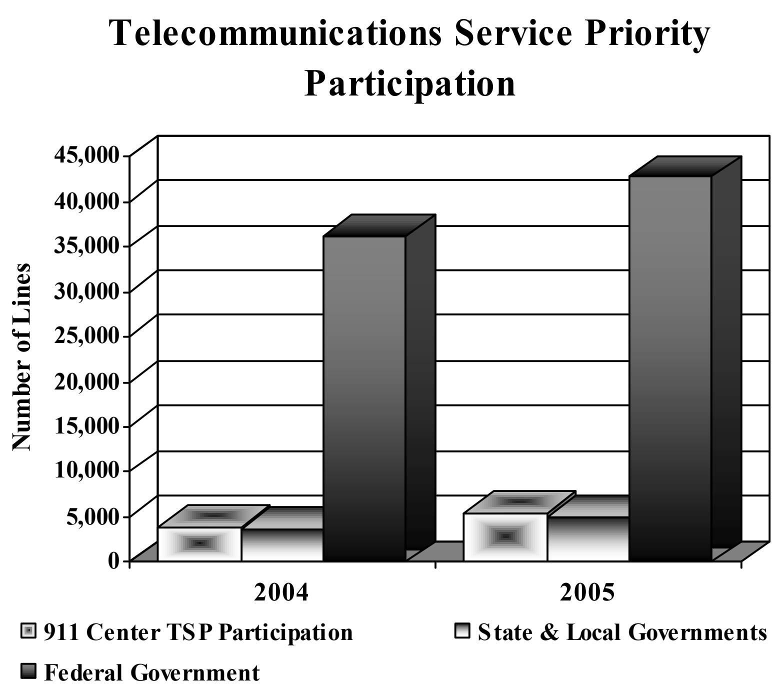
FY 2005 PERFORMANCE INDICATORS

Increasing deployment of E-911

From August 2004 to July 2005, Phase II of E-911 Operational Growth increased by 51.4% (from 1,904 to 2,882). This chart reflects the number of Public Safety Answering Points (PSAPs) receiving Phase II location information from at least one mobile service licensee. To receive E911 data from any mobile service licensee, a PSAP must have become fully E911 capable. Thus, all PSAPs reflected in this chart are capable of receiving E911 data from multiple mobile service licensees. This chart also indicates that at least some of the customers served by these PSAPs have access to E-911. Phase II rules require licensees to transmit 911 caller location information to PSAPs with greater accuracy than Phase I deployment. To monitor E-911 progress closely, each carrier is required to file quarterly reports with the FCC on February 1, May 1, August 1, and November 1 of each year.



Increasing Telecommunications Service Priority Participation



The FCC established the TSP program to support priority restoration of communications services that support national security and emergency preparedness (NS/EP) missions during disasters, including terrorist attacks. The National Communications System (NCS) oversees day-to-day operation of the TSP program. Any Federal, state, or local government entity that relies on telecommunications services to accomplish its NS/EP mission can qualify for TSP. There were a total of 55,000 911-center communications lines in FY 2005. Although all 911-centers would qualify for the TSP program, only a very small percentage of 911-centers participate. In FY 2004, the FCC began an outreach program to inform 911 administrators of the TSP program and to expedite their enrollment. At the end of FY 2004, a total of 3,888 911-center communications circuits were enrolled in the TSP program. By the end of July 2005, a total of 5,401 911-center communications circuits were covered by the TSP program. This amounted to a 39% increase in 911-center participation.

During FY 2005, the FCC examined the TSP participation rates of Federal agencies and state and local governments. At the end of FY 2004, the Federal government had 36,171 circuits enrolled in the TSP program; by the end of July 2005, a total of 42,801 Federal government circuits were covered. At the end of FY 2004, state and local governments had 3,586 circuits enrolled in the TSP program; by the end of July 2005, a total of 5,028 state and local government circuits were covered. The TSP program increases the reliability of essential NS/EP communications services by minimizing out-of-service times. As a result, these circuits' operations were made substantially more reliable.

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Modernize the FCC

Strategic Goal

Emphasize performance and results through excellent management. Develop and retain independent mission-critical expertise, and align the FCC with the dynamic communications markets.

The FCC has committed itself to making fundamental changes to become a more responsive, efficient, and effective agency capable of facing the technological and economic opportunities of the new millennium. While these changes began in 2003 with an agency-wide reorganization, they have continued through the dedication of resources to recruiting, training, equipping, and deploying an expert workforce.

FY 2005 PERFORMANCE GOALS

- Become a more responsive, efficient, and effective agency.

FY 2005 PERFORMANCE HIGHLIGHTS

- Customer Service Improvements – The FCC fully integrated an artificial intelligence system that automatically sends accurate responses to consumer e-mails within minutes. This system streamlined complaint and inquiry logging, allowing FCC staff to avoid delays when taking calls. The agency also placed complaint forms on-line for direct filing or downloading in both English and Spanish, and added new carriers to the OSCAR bridge project, which saves time and paperwork by electronically sending complaints and carrier responses to electronic mailboxes. The agency updated the agency's Interactive Voice Response (IVR) system, allowing the FCC to better utilize the telephone to provide pinpointed information to consumers at whatever time they call.

- Filing and Licensing System Improvements – The agency implemented several new features to improve customer experience in using FCC electronic filing/licensing systems:

  - Implemented a web-based system to allow individual customers to determine if they are delinquent in any debt to the FCC prior to requesting services or authorizations from the agency. FCC partners at the Universal Service Administrative Company, Telecommunication Relay Service, and North American Numbering Plan council can also check electronically whether any applicant for these services owes a debt to the FCC prior to granting funds or services from these programs.

  - Enhanced the functionality of the on-line Fee Filer system so customers can look up and pay all FCC bills in one stop.

  - Developed an on-line capability for customers to associate their commonly used call sign identification with the FCC's required registration numbers (FRN) in the Universal Licensing System.

- Emergency Information Availability – The agency created a special version of the public FCC Internet home page to be used during emergencies when events have precluded normal FCC operations.

- Automated Frequency Assignment Coordination – The agency automated its coordination of spectrum frequency assignment requests in the 70-80-90 band. This is just one aspect of the FCC effort to improve spectrum coordination with other Federal agencies, such as the National Telecommunications and Information Administration.

- On-line Satellite Technology Classroom – In March 2005, the agency launched an interactive, online classroom for K-12 students to teach the basics of satellite technology and its applications in everyday life. The system has been used in classrooms outside the agency and as part of the FCC's Career Day activities. It has also proved to be an excellent resource for internal staff.

- Information Technology Network Enhancements – The agency enhanced its network to minimize network downtime, ensure continued network integrity, and guard against the disruption of critical agency work:

  - Replaced and hardened communications connectivity hardware that links the agency's field offices;

  - Implemented a full-featured development lab for testing new technologies and upgrades in a safe, controlled environment;

  - Upgraded software to monitor and troubleshoot the local/wide area networks, and tested and evaluated anti-SPAM and anti-spyware tools.

- Outdated Licensing System Components – The agency made progress in eliminating outdated, vulnerable components of its electronic systems, including making the following enhancements to its electronic licensing systems:

  - Enhanced the Equipment Authorization System (EAS) to provide an electronic filing module for Grantee Codes and for Cognitive Radio;

  - Enhanced the Broadcast Radio and Television Electronic Filing System (formerly known as the Consolidated Database System) to allow electronic filing of Channel Election Forms and Digital Low-Power TV (LPTV) applications; also enhanced the Educational Broadband Service (EBS) system to add new license search capabilities and streamlined transfers of assignments/control;

  - In October 2004, launched MyIBFS, an electronic filing site for international and satellite applications. Designed through a partnership with users, the improved e-filing system included a new customer-centric filing portal, enhanced account management features, and the Commission's first interactive interface form for earth station filers called the 312 EZ. Improvements to the original IBFS filing system included a new e-filing form for transfers of control and assignments of International Section 214 Authorizations, streamlined login procedures, and online filing forms for certification of construction permits and surrenders of licenses.

- Collaborative Work Systems – The agency expanded a pilot project, IMPACT (Improving Management of Policy Activities through Collaborative Technologies) to use document and knowledge management software to improve its policy and rulemaking processes. Eight rulemaking teams, spectrum auction groups, and one policy task force have used this new tool. IMPACT gives the 300 pilot participants easy, common access to everything from activity reports, to common rulemaking templates, to links to various handbooks and regulations regarding rulemaking, as well as documents that are being developed concurrently by multiple authors.

- Website Procedures – The agency developed a new Weekly Network Maintenance Window Policy that streamlines the procedures FCC webmasters and e-system owners must follow during planned and unplanned interruptions in network and internet services, so the public will receive more timely and accurate notification of the status of the Commission's on-line systems.

- Intensive Professional Training – Agency webmasters learned how to maximize the accessibility of it's the FCC's Internet pages for those with various disabilities. This included teaching webmasters how to optimize their pages for use with screen-reader software.

- Agency Accountability – The OIG completed audits of the Commission's FY 2004 financial statements, the annual Federal Information Security Management Act (FISMA) assessment, and numerous audits of Commission physical and information security controls.

- Internet Website Inventory – The agency listed priorities and a schedules page in accordance with the E-Government Act of 2002 to improve how FCC information, including information on the Internet, is organized, preserved, and made accessible to the public.

- Access to Strategic Planning Information – The agency made it easier for the public to access and understand the agency's strategic plan by creating a centralized webpage of the agency's strategic plan and its implementation, and a comprehensive review of FCC policies and procedures.

- Information Collections – The agency created its first-ever Paperwork Reduction Act Internet homepage so that all stakeholders who are required to provide information to the agency can quickly and easily access and comment on the FCC's information collections.

- Strategic Human Capital Planning Initiative – By completing the blueprint for a Strategic Human Capital Plan, which included analysis of the workforce by bureau and occupation to identify critical workforce and leadership issues, the Commission was able to better pinpoint its future staffing needs**.**

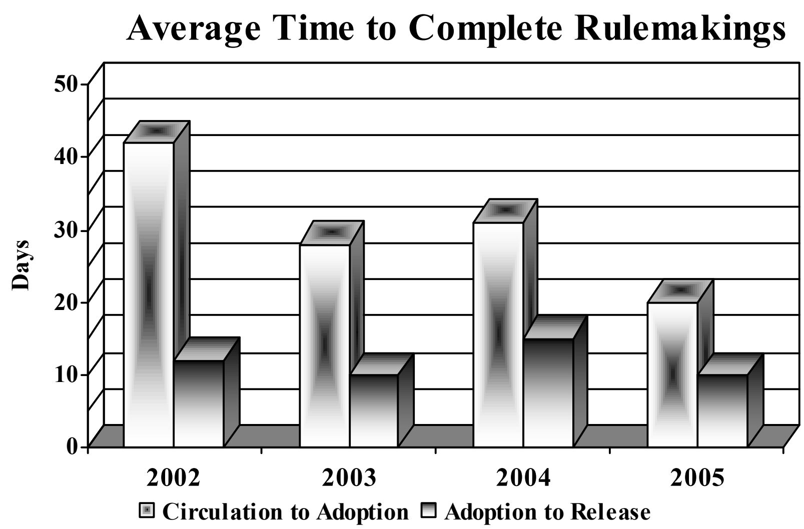
- First Annual FCC Employee Survey – The agency used this survey to assess leadership and management practices and employee satisfaction. The FCC employees' responses were generally positive and compared favorably to the rest of the Federal workforce.

- <u>One of the Best Places to Work</u> – The FCC ranked eleventh (out of 218 federal subcomponents) on the Partnership for the Public Service and the Institute for the Study of Public Policy Implementation's Best Places to Work in the Federal Government listing. Among small agencies the FCC ranked third. The Best Places ranking, a comprehensive index of employee satisfaction, is developed using data in the Office of Personnel Management's survey of over 100,000 Federal employees.

FY 2005 PERFORMANCE INDICATORS

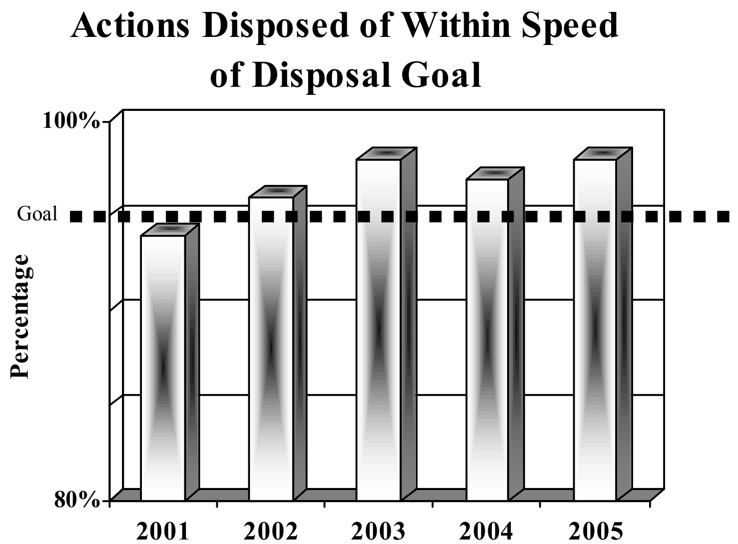
Reduce the average time required to complete rulemakings

The FCC's processing time for both "circulation to adoption" and "adoption to release" dropped by one-third between FY 2004 and FY 2005. At the same time, the number of rulemakings decreased by 35% from 182 to 118.

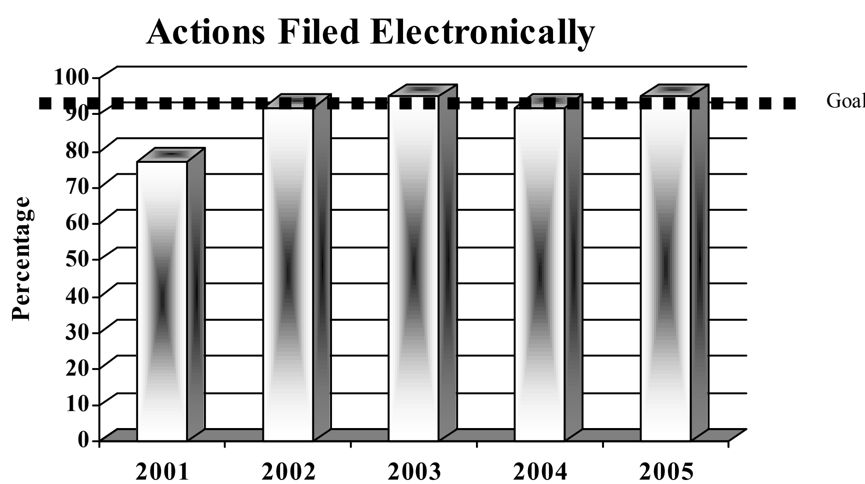


Increase efficiency in the processing of workload

In FY 2005, 98% of the agency's actions were disposed within the processing goals. This was a slight improvement over the FY 2004 performance and returned the agency to the level of performance it achieved in FY 2003. Performance in each of these years exceeded the agency's speed of disposal goal of 95%.

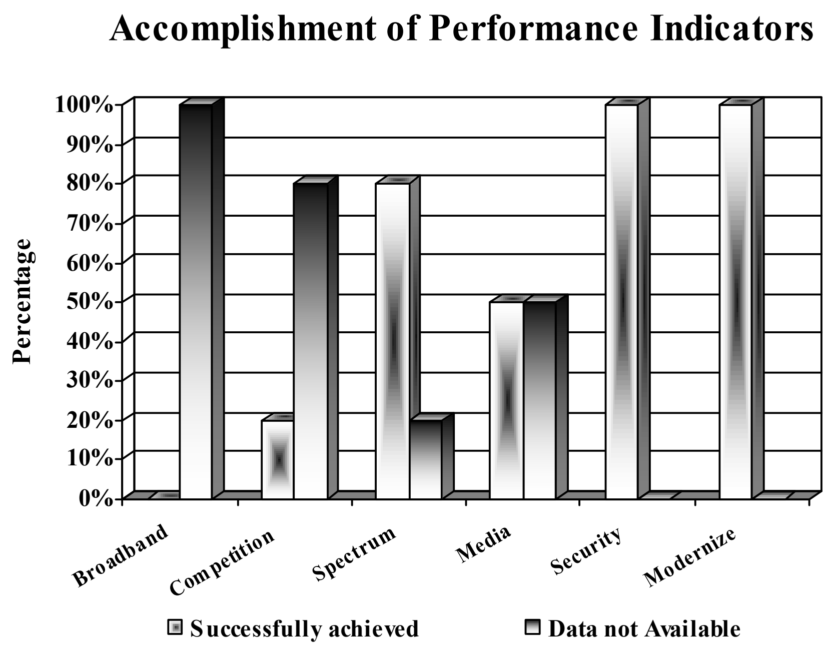


In FY 2005, the FCC returned to 95% electronic filing — an increase of three percentage points over FY 2004. In both years the FCC exceeded its 90% goal for electronic or on-line filing.



Accomplish the agency's performance commitments:

FY 2005 data shows the FCC met 12 of its performance indicators. The data necessary to judge performance achievement on the other nine FY 2005 indicators were not available when this report was drafted.



Align human capital and career development with strategic goals

FY 2005 Milestones	Status
• Implement Human Capital strategies to address skills and competencies required for accomplishment of strategic goals. - Continue workforce planning effort to efficiently and effectively deploy our human resources. • Develop targeted skills and competencies for all FCC employees through appropriate career development aligned with strategic goals. - Implement a Learning Management System (LMS).	• Phase I completed. Initial briefing held with Chairman's Office and shared proposal to establish Human Resources Advisory Group. Briefed new Bureau chiefs and completed blueprint for a Strategic Human Capital Plan. • Developing skills and competencies is ongoing. • To date, employees have completed over 565 external training courses, and we have presented over 340 in-house courses, for over 7,000 instances of training. • LMS Phase I implemented on schedule, September 2004. • Phase II includes *My Plan* the electronic replacement to the Personal Development Plan (PDP), and the mechanism for adding Training History data was available September 2005.

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3. Financial Statements and Auditors' Reports

Message from the Chief Financial Officer

The financial condition of the Commission improved in FY 2005 but this improvement is not reflected in the Auditor's accompanying report. The auditor's disclaimer of opinion is a result of our management representation letter signatory practices and does not reflect the condition of the agency accounting records or activities. We cooperated fully with the audit, and provided the requested management representation letter in accordance with the Commission's long-established signatory practices. In February 2005, we acknowledged a violation of the Antideficiency Act that occurred prior to the end of FY 2004 and resulted from the reporting of one of the Commission's key component entities, i.e., the administrator of the Universal Service Fund (USF). The acknowledgement that the USF had likely been noncompliant with the Antideficiency Act from inception until September 30, 2004 as a result of misapplied accounting practices is resolved and USF's administrator has adopted many of the accounting practices required as generally acceptable accounting principals over governmental entities. We will continue to work with the USF's administrator to ensure sound financial management practices are followed and future noncompliance does not occur.

This year, we eliminated a material weakness associated with the Cost Accounting System, which resulted in the elimination of a qualification of opinion from the FY 2004 report. We also resolved two of the three conditions that resulted in a disclaimer of opinion on two statements in FY 2004. In FY 2004 the Commission declined to provide the auditors assurances over the investment, accounts receivable and commitment balances and activities of the USF. For FY 2005 the Commission provided the auditor assurance over both investment and accounts receivable balances and activities as well as the FY 2005 closing commitment balances from the USF. Unfortunately, the Commission could not obtain sufficient evidentiary documentation from the USF's administrator to extend that assurance to the FY 2004 closing commitment balances or to the commitment activities during FY 2005. We will work with the administrator to resolve any weaknesses concerning the accounting for these commitment balances.

During FY 2005, the Commission completed several steps towards resolving the oldest and most difficult audit issue, the lack of a consolidated financial system. The need for an integrated financial management system continues to be identified in the audit of the Commission's financial statements as a key element to improved financial management. In FY 2005 we conducted a feasibility study and determined that an enterprise solution would be the best for replacing the Commissions manually intensive, antiquated, and disjointed accounting processes. In the near term, we plan to initiate a competitive procurement process to obtain more up-to-date financial systems. We will work to address this need as soon as possible.

In FY 2005, the Commission addressed several areas of concern by implementing proper accounting, recording and reporting of the USF investment portfolio, recognition of the recoveries from USF beneficiary audit work, and advancement towards complete compliance with Gov/GAAP reporting. One area, the USF funding commitment process and the accounting for those commitments, was an enormous task that was severely hampered by the limitations of the current USAC commitment management system. Although USAC provided the Commission a representation over both the FY 2004 and FY 2005 closing commitment balances, the Commission staff could obtain sufficient evidential matter only to provide the auditors assurance over the FY 2005 closing balance. We will work to address this issue as soon as possible.

The Commission continues to work to resolve the other material weaknesses and instances of non-compliance identified in the yearly audit of the Commission's financial statements and will direct additional time and staffing to resolve them as expeditiously as possible. The Commission efforts will remain directed towards the overarching problems associated with (1) the existing financial information systems; (2) the manually intensive compilation of quarterly and year end financial reporting data; and (3) the full integration of the Commission's reporting components in governmental accounting practices. We anticipate resolving these overarching problems in an expeditious manner.

Mark Reger
Chief Financial Officer

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the FCC, pursuant to the requirements of 31 U.S.C. § 3515(b). While the statements have been prepared from the books and records of the FCC in accordance with Generally Accepted Accounting Principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

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UNAUDITED PRINCIPAL STATEMENTS

Note: The accompanying notes are an integral part of these statements.

UNAUDITED CONSOLIDATED BALANCE SHEET

As of September 30, 2005 and 2004
(Dollars in thousands)

	2005	2004
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 1,522,785	$ 487,904
Investments (Note 5)	4,139,945	3,257,049
Accounts Receivable (Note 6)	4,996	7,907
Total Intragovernmental	5,667,726	3,752,860
Cash and Other Monetary Assets (Note 4)	57,114	291,612
Investments (Note 5)	-	319
Accounts Receivable, net (Note 6)	673,493	577,768
Loans Receivable, net (Note 7)	1,257,265	2,691,858
General Property, Plant, and Equipment, net (Note 9)	51,198	53,255
Other	10,447	26
Total Assets	$ 7,717,243	$ 7,367,698
LIABILITIES (Note 10)		
Intragovernmental		
Debt (Note 11)	$ 1,273,798	$ 3,940,764
Other (Note 12)		
Custodial	222,350	310,130
Other	1,826	1,612
Total Other	224,176	311,742
Total Intragovernmental	1,497,974	4,252,506
Accounts Payable	74,451	56,377
Other (Note 12)		
Deferred Revenue	1,185,774	81,989
Prepaid Contributions	57,360	159,260
Deposit/Unapplied Liability	5,232	83,038
Accrued Liabilities for Universal Service	418,826	385,989
Other	43,400	42,906
Total Other	1,710,592	753,182
Total Liabilities	$ 3,283,017	$ 5,062,065
Commitments and Contingencies (Note 14)		
NET POSITION		
Unexpended Appropriations	$ 24,617	$ 38,155
Cumulative Results of Operations	4,409,609	2,267,478
Total Net Position	4,434,226	2,305,633
Total Liabilities and Net Position	$ 7,717,243	$ 7,367,698

UNAUDITED CONSOLIDATED STATEMENT OF NET COST

For the Periods Ended September 30, 2005 and 2004
(Dollars in thousands)

	2005	2004
PROGRAM COSTS:		
Broadband:		
Gross costs	$ 24,692	$ 20,216
Less: Earned Revenue	(26,995)	(21,388)
Net Program Costs (Note 15)	(2,303)	(1,172)
Competition:		
Gross costs	6,679,252	5,973,803
Less: Earned Revenue	(118,231)	(125,921)
Net Program Costs (Note 15)	6,561,021	5,847,882
Spectrum:		
Gross costs	503,517	1,715,937
Less: Earned Revenue	(489,887)	(547,366)
Net Program Costs (Note 15)	13,630	1,168,571
Media:		
Gross costs	30,433	29,390
Less: Earned Revenue	(31,887)	(29,068)
Net Program Costs (Note 15)	(1,454)	322
Homeland Security:		
Gross costs	35,445	33,940
Less: Earned Revenue	(36,953)	(34,817)
Net Program Costs (Note 15)	(1,508)	(877)
Modernize the FCC:		
Gross costs	53,334	52,161
Less: Earned Revenue	(54,280)	(52,009)
Net Program Costs (Note 15)	(946)	152
Total Net Program Costs	6,568,440	7,014,878
Cost not Assigned to Programs:		
Telecommunications Development Fund	1,314	20
Other Expenses	(759)	4,924
Less: Earned Revenues not Attributed to Programs:		
Telecommunications Development Fund	(1,314)	(20)
Net Cost of Operations	$ 6,567,681	$ 7,019,802

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Periods Ended September 30, 2005 and 2004
(Dollars in thousands)

	2005		2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ 2,267,478	$ 38,155	$ 2,308,240	$ 43,055
Budgetary Financing Sources:				
Appropriations received	-	1,260,763	-	639,087
Other adjustments (recission, etc) (+/-)	(1,095)	(1,664)	(3,358)	(1,673)
Appropriations used	1,272,637	(1,272,637)	642,314	(642,314)
Universal Service Fund Nonexchange Revenue	7,449,284	-	6,350,269	-
Loss on Disposition of Investments	-	-	(4,808)	-
Other budgetary financing sources	-	-	235	-
Other Financing Sources:				
Transfers-in/out without reimbursement (+/-)	(25,463)	-	(20,159)	-
Imputed financing from costs absorbed by others	14,449	-	14,547	-
Total Financing Sources	8,709,812	(13,538)	6,979,040	(4,900)
Less: Net Cost of Operations	6,567,681		7,019,802	
Ending Balances	$ 4,409,609	$ 24,617	$ 2,267,478	$ 38,155

UNAUDITED COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Periods Ended September 30, 2005 and 2004
(Dollars in thousands)

	2005		2004 UNAUDITED	
	Budgetary	Non Budgetary Credit Program Financing Acct	Budgetary	Non Budgetary Credit Program Financing Acct
Budgetary Resources:				
Budget Authority				
Appropriations Received	$ 9,899,436	$ -	$ 16,686,878	$ -
Borrowing Authority	-	38,124	-	2,791
Unobligated Balance:				
Beginning of Period (Note 24)	272,571	59,507	2,016,229	46,031
Adjustment to Beginning Balance (Note 24)	-	-	(2,057,858)	-
Adjusted - Beginning of Period	272,571	59,507	(41,629)	46,031
Spending Authority from Offsetting Collections:				
Earned				
Collected	416,792	2,981,006	429,899	1,483,878
Receivable from Federal Sources	(342)	-	762	-
Change in Unfilled Customer Orders				
Advance Received	-	-	(1)	-
Without Advance from Federal Sources	13	-	(73)	-
Anticipated for rest of year, without advances	-	-	-	-
Subtotal	10,588,470	3,078,637	17,075,836	1,532,700
Recoveries of Prior Year Obligations	664,116	-	8,719	-
Temporarily not available pursuant to Public Law	(12,000)	-	(349)	-
Permanently not available	(2,742)	(2,705,090)	(60,805)	(1,127,464)
Total Budgetary Resources	$ 11,237,844	$ 373,547	$ 17,023,401	$ 405,236
Status of Budgetary Resources:				
Obligations Incurred (Note 16):				
Direct	$ 10,230,118	$ 306,351	$ 16,748,849	$ 345,729
Reimbursable	1,359	-	1,981	-
Subtotal	10,231,477	306,351	16,750,830	345,729
Unobligated Balance:				
Apportioned	217,449	382	2,612	434
Other Available	-	-	247,360	-
Unobligated Balance not Available	788,918	66,814	22,599	59,073
Total Status of Budgetary Resources	$ 11,237,844	$ 373,547	$ 17,023,401	$ 405,236
Relationship of Obligations to Outlays:				
Obligated Balance, net, Beginning of Period	$ 3,085,195	$ -	$ 140,398	$ -
Obligated Balance Transferred, net	-	-	-	-
Obligated Balance, net, End of Period:				
Accounts Receivable	(15)	-	(357)	-
Unfilled Customer Orders from Federal Sources	-	-	13	-
Undelivered Orders	3,172,497	-	3,014,495	-
Accounts Payable	92,637	-	71,044	-
Outlays:				
Disbursements	9,387,765	306,351	13,796,624	345,729
Collections	(416,792)	(2,981,006)	(429,897)	(1,483,878)
Subtotal	8,970,973	(2,674,655)	13,366,727	(1,138,149)
Less: Offsetting Receipts	25,463	-	20,159	-
Net Outlays	$ 8,945,510	$ (2,674,655)	$ 13,346,568	$ (1,138,149)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCING

For the Periods Ended September 30, 2005 and 2004
(Dollars in thousands)

Resources Used to Finance Activities:	**2005**	**2004 UNAUDITED**
Budgetary Resources Obligated		
Obligations incurred	$ 10,537,828	$ 17,101,457
Less: Spending authority from offsetting collections and recoveries	4,061,585	1,923,184
Obligations net of offsetting collections and recoveries	6,476,243	15,178,273
Less: Offsetting receipts	25,463	20,159
Net obligations	6,450,780	15,158,114
Other Resources		
Transfers in/out without reimbursement (+/-)	25,463	20,159
Imputed financing from costs absorbed by others	14,449	14,547
Other (+/-)	-	-
Net other resources used to finance activities	39,912	34,706
Total resources used to finance activities	6,490,692	15,192,820
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided (+/-)	168,435	2,943,924
Resources that fund expenses recognized in prior periods	1,269,099	609,456
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	(3,016,923)	(1,486,208)
Other	350,860	375,259
Resources that finance the acquisition of assets	1,137,808	6,953,619
Other resources or adjustments to net obligated resources that do not affect net cost of operations (+/-)	57,786	375,373
Total resources used to finance items not part of the net cost of operations	(32,935)	9,771,423
Total resources used to finance the net cost of operations	6,523,627	5,421,397
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	-	1,079
Upward/Downward reestimates of credit subsidy (+/-)	(44,224)	1,197,215
Increase in exchange revenue receivable from the public	2,957	163
Other (+/-)	32,205	45,386
Total components of Net Cost of Operations that will require or generate resources in future periods	(9,062)	1,243,843
Components not Requiring or Generating Resources:		
Depreciation and Amortization	16,922	15,211
Revaluation of assets or liabilities (+/-)	-	-
Other (+/-)	36,194	339,351
Total components of Net Cost of Operations that will not require or generate resources	53,116	354,562
Total components of Net Cost of Operations that will not require or generate resources in the current period	44,054	1,598,405
Net Cost of Operations	$ 6,567,681	$ 7,019,802

UNAUDITED CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY

For the Periods Ended September 30, 2005 and 2004
(Dollars in thousands)

	2005	2004
Revenue Activity:		
Sources of Cash Collections:		
Spectrum Auctions	$ 152,355	$ 205,024
Fines and Penalties	12,435	24,636
Credit Reform Interest	269,233	343,257
TDA Interest	1,314	20
Total Cash Collections	435,337	572,937
Accrual Adjustments		
Spectrum Auctions	6,132	(63)
Fines and Penalties	(1,472)	(1,530)
TDA Interest	-	-
Total Accrual Adjustments	4,660	(1,593)
Total Custodial Revenue	439,997	571,344
Disposition of Collections:		
Transferred to Others:		
Recipient A: U.S. Treasury	(441,448)	(367,889)
Recipient B: FCC Financing Acct - Credit Reform (Recoveries)	-	-
(Increase)/Decrease in Amounts Yet to be Transferred	87,780	(80,078)
Refunds and Other Payments	-	(333)
Retained by the Reporting Entity	(86,329)	(123,044)
Net Custodial Activity	$ -	$ -

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2005 AND 2004
(DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED)

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The FCC is an independent United States Government agency, established by the Communications Act of 1934, as amended. The FCC is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The FCC's jurisdiction spans the 50 states, the District of Columbia, and the U.S. possessions. Five commissioners direct the FCC; they are appointed by the President of the United States and confirmed by the Senate for five-year terms, except when filling an unexpired term.

The FCC comprises three reporting components. The primary component consists of FCC headquarters and field offices. The two additional components are the USF and the NANP. The USF reports the results of the four Universal Service support mechanisms (established pursuant to Section 254 of the Act, as amended) and the results of the Telecommunications Relay Service Fund (established by the Americans with Disabilities Act of 1990, Title IV). The NANP reports the results of billing and collection activities conducted to support the NANP (47 C.F.R. §52.16, 52.17, 52.32, and 52.33).

Basis of Accounting and Presentation

The consolidated financial statements (financial statements) have been prepared from the accounting records of the FCC in conformity with U.S. Federal Generally Accepted Accounting Principles and the form and content for entity financial statements specified by the OMB in OMB Bulletin 01-09, "Form and Content of Agency Financial Statements," as superseded by OMB Circular A -136 "Financial Reporting Requirements."

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Fund Balance with Treasury

Funds with the Department of the Treasury (Treasury) primarily represent appropriated, revolving, and deposit funds. The FCC may use the appropriated and revolving funds to finance expenditures, depending on budgetary availability. The deposit accounts are used to hold funds temporarily until they can be properly disbursed or distributed.

Note 1 - Summary of Significant Accounting Policies (continued)

Cash and Other Monetary Assets

Cash and Other Monetary Assets represent cash on deposit and money market funds at several commercial banks. Cash on deposit is collateralized by the Federal Reserve and typically exceeds federally insured limits.

Investments

Investments are reported net of the unamortized premium or discount. All investments are in Treasury securities.

Accounts Receivable, Net

Accounts Receivable consist of claims made for payment from other entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts.

Loans

The Federal Credit Reform Act (FCRA) of 1990, as amended, governs the reporting requirements for direct loan obligations made after FY 1991. The FCRA requires that the present value of the subsidy costs associated with direct loans be recognized as a cost in the year that the loan is obligated. (Present value is calculated as the estimated cash outflows over the life of the loans, less the present value of the estimated cash inflows, discounted at the interest rate of marketable Treasury securities with a similar maturity term.) Direct loans are reported net of an allowance for subsidy at the present value.

Property, Plant and Equipment

The basis for recording purchased general Property, Plant, and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to and from a location suitable for its intended use. All PP&E with an initial acquisition cost of $25,000 or more and all internally developed software with a development cost of $50,000 or more, and with an estimated useful life of two years or greater are capitalized. Bulk purchases of similar items, individually worth less than $25,000 but collectively worth more than $250,000, are also capitalized using the same equipment categories and useful lives as capital acquisitions. PP&E are depreciated on a straight-line basis over the estimated useful life of the item. The useful lives used are: forty years for buildings, seven years for equipment, five years for computers and vehicles, and three years for software. Land and land rights, including permanent improvements, are not depreciated, nor is software in development. Normal maintenance and repair costs are expensed as incurred.

Leasehold improvements include all costs incurred during the design and construction phase of the improvement. These costs are amortized over the remaining life of the lease, or the useful life of the improvements, whichever is shorter.

Note 1 - Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

The FCC's authority relative to seized and forfeited property is cited in 47 U.S.C. § 510. Seized property consists of personal property and equipment seized from illegal telecommunication operations. The property is considered prohibited and is held, pending an outcome of court proceedings. Forfeited property consists of seized property turned over to the FCC to be destroyed or disposed of through a surplus process. The values assigned to the seized and forfeited property are determined by FCC engineers and are based on current market values for comparable property.

Other Assets

Other Assets represents the balance of transfers less expenses made by the USF to USAC to fund administrative costs in advance. Advances are drawn down as expenses are incurred.

Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities represent a probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities are recognized when they are incurred, regardless of whether they are covered by available budgetary resources. Liabilities cannot be liquidated without legislation that provides resources to do so. As a component of the U.S. Government, a sovereign entity, payments of all liabilities other than contracts can be abrogated by the sovereign entity.

Deferred Revenue

The FCC collects proceeds from the sale of communications spectrum on behalf of the U.S. Government. All proceeds collected up to the amount of the net winning bid are recognized as deferred revenue until a "prepared to grant" or "grant" public notice is issued. In addition, the FCC collects multi-year regulatory fees for five- and ten-year periods that are recorded as deferred revenue and amortized over the period of the fee.

Debt to the U.S. Treasury

This account represents amounts due to the Treasury's BPD to support the spectrum auction loans program. Borrowings from BPD are determined based on subsidy estimates and re-estimates in accordance with the FCRA of 1990, as amended, and OMB guidance. Interest payment on debt is calculated annually and remitted to BPD at the end of the fiscal year. These payments are recorded in a receipt account maintained by the FCC.

Retirement Plans and Other Benefits

Federal employee benefits consist of the actuarial portions of future benefits earned by Federal employees, including pensions, other retirement benefits, and other post-employment benefits. The Office of Personnel Management (OPM) administers these benefits. The FCC does not recognize any liability on the Consolidated Balance Sheet for pensions, other retirement benefits, and other post-employment benefits. The FCC recognizes and allocates the imputed costs on the Statement of Net Costs and recognizes imputed financing related to these costs on the Statement of Changes in Net Position.

Note 1 - Summary of Significant Accounting Policies (continued)

Retirement Plans and Other Benefits (continued)

Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other termination of employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most FCC employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). Under CSRS, FCC makes matching contributions equal to seven percent of basic pay. For FERS employees, FCC contributes the employer's matching share for Social Security and contributes an amount equal to one percent of employee pay to a savings plan and matches up to an additional four percent of pay. Most employees hired after December 31, 1983 are covered by FERS.

The OPM reports on CSRS and FERS assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to Federal employees.

The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined by using historical benefit payment patterns related to a specific incurred period to predict the ultimate payment related to that period. The Department of Labor determines no actuarial liability for the FCC, due to the immateriality to the Federal Government as a whole.

Leave

Annual leave is accrued as earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current leave balances and pay rates. Annual leave is reflected as a liability not covered by current budgetary resources. Sick leave and other types of non-vested leave are expensed as taken.

Revenue and Other Financing Sources

Regulatory Fee Collections (Exchange) - The Omnibus Budget Reconciliation Act of 1993 directed the FCC to assess and collect regulatory fees to recover the costs incurred in carrying out certain provisions of its mission. Section 9(a) of the Act, as amended, authorizes the FCC to assess and collect annual regulatory fees to recover the costs, as determined annually by Congress, incurred in carrying out its strategic goals of broadband, competition, spectrum, media, homeland security and modernizing the FCC. These fees were established by congressional authority, and, consistent with OMB Circular No. A-25 revised, *User Charges*, the FCC did not determine the full costs associated with its regulatory activity in establishing regulatory fees. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected. Fees collected up to the level established by Congress are applied against the FCC's annual appropriation at the close of each fiscal year. The regulatory fee levels of $280,098 for FY 2005 and $272,958 for FY 2004 were achieved.

Note 1 - Summary of Significant Accounting Policies (continued)

Revenues and Other Financing Sources (continued)

Radio Spectrum Auction Proceeds (Exchange) – In accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources*, the FCC accounts for this exchange revenue as a custodial activity. Revenue from spectrum auctions is recognized when a "prepared to grant" or "grant" public notice is issued. The value of available spectrum is determined by the market place at the time of auction. The FCC recognized custodial revenue of $158,487 in FY 2005 and $204,961 in FY 2004.

Offsetting Collections (Exchange) – One of the FCC's primary functions is managing the spectrum auction program. Proceeds from the auctions are initially remitted to the FCC and are later transferred to the U.S. Treasury, net of anticipated auction related costs (under 47 U.S.C. § 309, the FCC may retain a portion of the spectrum auction proceeds to offset the cost of performing the auction function). Collections used to offset the cost of performing auctions-related activity totaled $85,000 in FY 2005 and $85,000 in FY 2004.

Application Fees (Exchange) – Congress authorized the FCC (47 U.S.C. § 8) to impose and collect application processing fees and directed the FCC to prescribe charges for certain types of application processing or authorization services it provides to communications entities over which the FCC has jurisdiction. The FCC amends its Schedule of Application Fees (47 C.F.R. § 1.1102 *et seq.*) to adjust the fees for processing applications and other filings. Section 8(b) of the Act, as amended, requires the Commission to review and adjust its application fees every two years. The adjusted or increased fees reflect the net change in the Consumer Price Index for all Urban Consumers (CPI-U), calculated over a specific period of time. Application fees are deposited in the Treasury and are not available for the FCC's use. Application fees collected totaled $25,463 in FY 2005 and $20,159 in FY 2004.

Reimbursable Work Agreements (Exchange) – The FCC recognizes reimbursable work agreement revenue when earned, *i.e.*, goods that have been delivered or services rendered. The FCC executed agreements totaling $1,372 in FY 2005 and $1,668 in FY 2004.

Annual Appropriations (Financing Source) – The FCC receives an annual Salaries and Expenses appropriation from Congress. These funds are used to pay for operations during the fiscal year and are repaid to the Treasury once regulatory fees are collected. The annual appropriation for FY 2005 is $281,085 with regulatory fee collections of $280,098 resulting in a net appropriation of $987. The annual appropriation for FY 2004 was $273,947 with regulatory fee collections of $272,958 resulting in a net appropriation of $989.

Subsidy Estimates and Reestimates (Financing Source) – The FCC receives permanent-indefinite authority for its credit reform program account in accordance with the FCRA of 1990, as amended, to fund its subsidy estimates and reestimates, unless otherwise prescribed by OMB. This account records the subsidy costs associated with the direct loans after FY 1991, as well as administrative expenses of the loan program. The FCC received appropriations of $1,259,776 in FY 2005 and $638,098 in FY 2004 for these purposes. These appropriations are available until used.

Note 1 - Summary of Significant Accounting Policies (continued)

Revenues and Other Financing Sources (continued)

USF (Nonexchange) – Carriers conducting interstate telecommunications are required to contribute a portion of their revenues to fund the cost of providing universal service. These contributions represent appropriated dedicated and earmarked receipts and are accounted for as a budgetary financing source. Contributions and related interest totaled $7,449,284 in FY 2005 and $6,350,269 in FY 2004.

Transactions with Related Parties

The FCC has relationships and conducts financial transactions with numerous Federal agencies, most prominently the Treasury. In addition to its Federal relationships, the FCC has a direct relationship with the administrators of those funds that are components under the overall FCC entity.

Net Position

Net Position is the residual difference between assets and liabilities and comprises Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations represents the amount of unobligated and unexpended budget authority. Unobligated Balance is the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. Cumulative Results of Operations is the net result of FCC's operations since inception.

Note 2 - Non-entity Assets

The following summarizes Non-entity Assets as of September 30, 2005 and 2004:

	2005	2004
Intragovernmental:		
Fund Balance with Treasury	$ 1,342,976	$ 328,473
Accounts Receivable, Net	4,996	7,907
Total Intragovernmental	1,347,972	336,380
Cash and Other Monetary Assets	749	82,583
Accounts Receivable, Net	20,892	16,103
Total Non-entity Assets	1,369,613	435,066
Total Entity Assets	6,347,630	6,932,632
Total Assets	$ 7,717,243	$ 7,367,698

Non-entity Fund Balance with Treasury primarily represents deposits made towards spectrum auction winning bids. These deposits accounted for $1,337,550 in FY 2005 and $326,284 in FY 2004. Non-entity Cash and Other Monetary Assets consist of upfront deposits made by potential spectrum auction bidders. Receivables considered non-entity are for regulatory fees, application fees, fines and forfeitures, spectrum auction receivables, and ITS charges.

Note 3 - Fund Balance with Treasury

The following summarizes Fund Balance with Treasury as of September 30, 2005 and 2004:

Fund Balances:

	2005	2004
Appropriated Funds	$ 112,613	$ 99,925
Revolving Funds	67,196	59,506
Deposit Funds	1,342,976	328,473
Total Fund Balance	$ 1,522,785	$ 487,904

Status of Fund Balances:

	2005	2004
Unobligated Balance		
Available	$ 98,408	$ 75,142
Unavailable	1,351,329	338,050
Obligated Balance not yet disbursed	73,048	74,712
Total	$ 1,522,785	$ 487,904

Appropriated Funds – Includes the salaries and expense appropriation used to fund agency operations, the auction and reimbursable accounts, the no-year accounts used to carry over spectrum auction and regulatory fee funds not obligated in the year received, and the credit reform program account.

Revolving Funds – Includes the credit reform financing account used to record cash flows associated with the FCC's spectrum auction loan program.

Deposit Funds – Includes monies being held for spectrum auctions, ITS, and regulatory fees. Deposit funds are not available for use by the FCC unless they are properly identified or reclassified as FCC funds. Otherwise, these funds are returned to the depositor or transferred to the Treasury.

Note 4 – Cash and Other Monetary Assets

The following summarizes Cash and Other Monetary Assets as of September 30, 2005 and 2004:

	2005	2004
Cash and Cash Equivalents	$ 57,093	$ 289,714
Accrued Interest	21	1,898
Total	$ 57,114	$ 291,612

USF and NANP contributions and third party deposits made pursuant to spectrum auction activities are the source of funds for these balances. Third-party deposits, unless refunded, are held until 45 days after the close of a given auction and then transferred to the FCC's Treasury account. Interest earned on cash and other monetary assets is reinvested, with the exception of interest earned on third-party deposits, which is transferred to the Telecommunications Development Fund (TDF).

In FY 2005 Cash and Other Monetary Assets included $749 in up-front deposits or related accrued interest being held for spectrum auctions, $48,150 in USF contributions and related accrued interest being held for distribution, and $8,215 in NANP deposits and related accrued interest.

In FY 2004, Cash and Other Monetary Assets included $82,583 in upfront deposits and related accrued interest being held for spectrum auctions, $199,784 in USF contributions and related accrued interest being held for distribution, and $9,245 in NANP deposits and related accrued interest.

Note 5 - Investments

The following summarizes Investments as of September 30, 2005 and 2004:

FY 2005	Cost	Amortization Method	Unamortized (Premium) Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities:					
Marketable Securities:					
Treasury Bills	$4,119,760	EI	$ 17,094	$ 4,136,854	$4,121,516
Treasury Notes	19,996	EI	4	20,000	19,803
Accrued Interest	189	NA		189	189
Total	$4,139,945			$ 4,157,043	$4,141,508
Other Securities:					
Marketable Securities	$ -	EI	$ -	$ -	$ -
Accrued Interest	-	NA		-	-
Total	$ -				$ -
FY 2004					
Intragovernmental Securities:					
Marketable Securities:					
Treasury Bills	$3,236,836	EI	$ 6,914	$3,243,750	$3,236,860
Treasury Notes	19,961		39	20,000	19,942
Accrued Interest	252	NA		252	252
Total	$3,257,049			$3,264,002	$3,257,054
Other Securities:					
Marketable Securities	$ 317	EI	$ -	$ 317	$ 316
Accrued Interest	2	NA		2	2
Total	$ 319			$ 319	$ 318

EI – Effective Interest Method
NA – Not Applicable

The portfolio consists primarily of Treasury Bills with maturities not greater than 90 days. All Treasury securities, regardless of the maturity date, are reported as investments. The FCC generally expects to hold all investments to maturity; therefore, no adjustments have been made to present market values.

Note 6 - Accounts Receivable, Net

The following summarizes Accounts Receivable, Net as of September 30, 2005 and 2004:

	Intragovernmental	Public	Total
FY 2005			
Gross Accounts Receivable	$ 4,996	$ 1,369,248	$ 1,374,244
Allowance for Doubtful Accounts	(-)	(695,755)	(695,755)
Net Accounts Receivable	$ 4,996	$ 673,493	$ 678,489
Interest on Delinquent AR	$ -	$ 45,856	$ 45,856
FY 2004			
Gross Accounts Receivable	$ 7,907	$ 1,255,303	$ 1,263,210
Allowance for Doubtful Accounts	(-)	(677,535)	(677,535)
Net Accounts Receivable	$ 7,907	$ 577,768	$ 585,675
Interest on Delinquent AR	$ -	$ 45,856	$ 45,856

Accounts receivable are recorded net of any related allowance for doubtful accounts. The FCC's portion is determined by applying predetermined percentages against the respective date the receivable was established. The current formula for the FCC's allowance is 25% for receivables 91-180 days outstanding, 75% for those 181-365 days outstanding, and 100% for anything greater than 365 days outstanding. An additional analysis of higher dollar value receivables is also performed on individual account balances. The USF portion is determined by calculating an estimated general allowance for doubtful accounts receivable, and reserving 100% for known bankruptcy and inactive accounts. The general allowance is calculated by multiplying the aged billing amounts by the percentage of the monthly delinquent accounts receivable over the monthly billing amounts.

A 100% allowance is also made for all Notice of Apparent Liabilities (NAL) receivables and Commitment Adjustment (COMAD) audit receivables. The NAL receivables represent notifications of a forfeiture, subject to final determination. While these receivables are included on the Treasury Report on Receivables at the request of Treasury, the ability to collect these receivables is not determined until a final judgment is issued. Similarly, the COMAD audit receivables represent preliminary audit findings that are subject to appeal by the auditee and are not considered final until the appeals period has lapsed or a final determination has been issued.

	FY 2005			FY 2004		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 843,931	$ (191,390)	$652,541	$ 762,723	$ (201,715)	$ 561,008
COMAD	59,981	(59,981)	-	31,063	(31,063)	-
Regulatory Fees	24,207	(13,423)	10,784	25,650	(14,231)	11,419
Spectrum Auction	408,969	(402,791)	6,178	401,366	(401,320)	46
Forfeitures	24,798	(23,661)	1,137	27,186	(24,963)	2,223
Other	12,358	(4,509)	7,849	15,222	(4,243)	10,979
Total	$1,374,244	$ (695,755)	$678,489	$ 1,263,210	$ (677,535)	$ 585,675

Note 7 – Loans Receivable, Net

Under Section 309(j)(3) of the Act, as amended, Congress directed the FCC to implement a competitive bidding (auctions) system for licensing spectrum to expand economic opportunity, promote competition, and facilitate the development and delivery of new and improved telecommunications services to the public. Section 309(j)(4) of the Act gave the Commission certain instructions for implementing regulations for this system, including a directive to ensure that small businesses, rural telephone companies, and women and minority-owned businesses have an opportunity to participate in providing spectrum-based services. The FCC can use various means to facilitate expanded participation, including alternative payment schedules, tax certificates, bidding preferences, and other procedures.

To address the mandate, the FCC provided installment financing in connection with its spectrum auction events, including the C Block Broadband Personal Communications Services (PCS), F Block PCS, Narrowband PCS, IVDS, MDS, and 900MHz Specialized Mobile Radio (SMR). Under the installment financing program, winning bidders were generally given five or ten years to repay their net winning bid amount (less the down payment), with up to five-year, interest-only initial payment periods. Interest rates varied by the type of borrower. Retention of licenses granted at auction was strictly conditioned on making full and timely payment of amounts as they become due. The return or repossession of auctioned licenses, which may have previously been associated with installment payment plans, does not directly or immediately affect the amount of the outstanding debt recorded in the agency's financial records. Outstanding debt adjustments are subject to a separate process.

The FCC's first auction was conducted in 1994, and starting in 1995 installment payment mechanisms were used to finance portions of some winning bids. The last active loan will mature in FY 2009. The FCC's installment loan portfolio is tracked under ten cohorts.

As required under the FCRA of 1990, as amended, the FCC coordinates with the OMB in developing estimation guidelines, regulations, and the criteria used in calculating the subsidy estimates and reestimates.

The most recent subsidy reestimate was completed in August 2005 for actual performance data through May 31, 2005 and estimated data from June through September, 2005. The reestimate resulted in a net downward adjustment, including interest on the reestimate, of $44,224 reported in the FY 2005 financial statements. The decrease is the result of a $180,566 downward reestimate in F-Block, where the resale of Nextwave licenses was substantially more than the outstanding principal, and an increase of $134,833 in C-Block, where the resale of Nextwave licenses was not sufficient to cover all of the outstanding principle.

During FY 2005 the FCC wrote off all remaining NextWave loans which accounted for $3,345,913, $2,092,626, and $17,093 decreases to the gross Loans Receivable, Interest Receivable and Other Receivable balances, respectively, and a decrease of $5,455,632 to the Allowance for Subsidy Cost. The write-off of the NextWave loans resulted in a negative subsidy balance. The negative subsidy reflects the fact that the FCC expects to collect amounts through the re-auction of licenses versus installment payments and as a result has a higher net loan balance than the gross loan balance.

The FCC re-auctioned multiple C & F block licenses, including those returned by NextWave in Auction #58 and expects C-block recoveries of $1,863,317, F-Block recoveries of $171,053, and new auction receipts of $8,860 as a result of this auction. Actual Auction # 58 recoveries received as of September 30, 2005 were $944,815. Other recoveries received through September 30, 2005 totaled $82,436 and payoffs, installments, and other payments totaled $577,120.

Note 7 – Loans Receivable, Net (continued)

Loans Receivable – Loans receivable are recorded as the principal outstanding, net of allowance for subsidy. Allowance for subsidy costs represents the difference between the present values of estimated net cash inflows and outflows of the spectrum auction loans. The allowance for subsidy cost is amortized using the effective interest method based on the Treasury's interest rate for the year the loans were disbursed. The allowance for subsidy also provides for write-offs on defaults and other costs that may affect cash flows.

Accrued Interest – FCC accrues interest on loans as it is earned. Current FCC policy automatically grants spectrum auction loans two sequential three-month grace periods for which borrowers are charged late fees except for the final payment, which has no grace period. In accordance with FCC rules, at the end of the total six-month grace period loans are considered to be in default and the license is automatically cancelled. For financial reporting purposes, the FCC discontinues accruing interest on loans beyond the six-month grace period, since these loans are considered non-performing. Under FCC policy, only interest on the performing loans is accrued and recorded for financial reporting purposes.

Direct Loans

Loan Program	Loans Receivable, Gross	Interest Receivable	Other Receivables	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Spectrum Auctions:					
FY 2005 Bal.	$ 471,917	$ 33,989	$ 1,987	$ 749,372	$ 1,257,265
FY 2004 Bal.	$ 4,313,522	$ 2,189,035	$ 20,952	$ (3,831,651)	$ 2,691,858

Interest accrued on bankrupt and defaulted loans totaled $33,281 as of September 30, 2005 and $2,186,907 in FY 2004.

Total Amount of Direct Loans Disbursed

Loan Program	FY 2005	FY 2004
Spectrum Auctions	$ -	$ -

No new loans were issued in FY 2005 and 2004.

Subsidy Expense for Direct Loans by Program and Component

1. Subsidy Expense for New Direct Loans Disbursed:

Loan Program	Interest Differential	Defaults	Fees	Other	Total
FY 2005	$ -	$ -	$ -	$ -	$ -
FY 2004	$ -	$ -	$ -	$ -	$ -

Note 7 – Loans Receivable, Net (continued)

Subsidy Expense for Direct Loans by Program and Component

2. Direct Loan Modifications and Reestimates:

Loan Program	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Spectrum Auctions				
FY 2005 (Net)	$ -	$ -	$ (24,501)	$ (24,501)
FY 2004 (Net)	$ -	$ -	$ 732,660	$ 732,660

3. Total Direct Loan Subsidy Expense:

FY 2005	$ -
FY 2004	$ -

Subsidy Rates for Direct Loans by Program and Component

Loan Program	Interest Differential	Defaults	Fees	Other	Total
FY 2005	0 %	0 %	0%	0%	0%
FY 2004	0 %	0 %	0%	0%	0%

Schedule for Reconciling Subsidy Cost Allowance Balances

	2005	2004
Beginning Balance of the Subsidy Cost Allowance	$ 3,831,651	$ 968,023
Subsidy expense for direct loans disbursed:		
During the reporting years by component:		
Interest rate differential costs	-	-
Default costs (net of recoveries)	-	-
Adjustments:		
Recoveries	1,027,251	-
Loans written off	(5,470,721)	(77,674)
Subsidy allowance amortization	(113,078)	2,208,286
Other	26	356
Ending balance before reestimates	(724,871)	3,098,991
Subsidy reestimates:		
Technical/default reestimate	(24,501)	732,660
Ending balance of the subsidy cost allowance	$ (749,372)	$ 3,831,651

Administrative Expense	2005	2004
Spectrum Auctions	$ 24,269	$ 32,781

Note 8 – Seized and Forfeited Property

FCC seizes property from illegally operated radio and other communication operations. The property is comprised of radio frequency, audio, and other communications equipment. Forfeited property consists of seized property legally turned over to the FCC. Although seized and forfeited property cannot be sold due to legal restrictions, and is not recognized for financial purposes, the quantity and value of seized and forfeited property is reported below. The property is tracked using the lot number assigned when seized. The following summarizes Seized and Forfeited Property as of September 30, 2005 and 2004:

	FY 2005		FY 2004	
	No. of Lots	Dollar Value	No. of Lots	Dollar Value
Seized Property				
Beginning Balance	40	$ 92	37	$ 73
Seized	2	12	21	20
Forfeited	(4)	(16)	(18)	(1)
Ending Balance	38	$ 88	40	$ 92

	FY 2005		FY 2004	
	No. of Lots	Dollar Value	No. of Lots	Dollar Value
Forfeited Property				
Beginning Balance	14	$ 10	8	$ 6
Forfeited	4	16	24	10
Disposed	(7)	(16)	(18)	(6)
Ending Balance	11	$ 10	14	$ 10

Note 9 - General Property, Plant and Equipment, Net

The following summarizes General PP&E as of September 30, 2005 and 2004:

	FY 2005			FY 2004			
Major Classes	Cost	Accum. Deprec	Net Book Value	Cost	Accum Deprec	Net Book Value	Estimated Useful Life
Land	$ 1,443	$ -	$ 1,443	$ 1,443	$ -	$ 1,443	N/A
Buildings	5,493	3,941	1,552	5,493	3,890	1,603	40
Non-Computer Equipment	37,493	32,356	5,137	36,220	28,413	7,807	7
Computer Equipment	28,613	18,694	9,919	27,756	16,048	11,708	5
Vehicle Systems	4,380	3,306	1,074	4,485	3,058	1,427	5
Leasehold Improvements	3,108	570	2,538	3,108	259	2,849	10
ADP Software	45,919	37,420	8,499	39,187	26,799	12,388	3
Software in Development	21,036	-	21,036	14,030	-	14,030	N/A
Total	$ 147,485	$ 96,287	$ 51,198	$131,722	$ 78,467	$ 53,255	

The FY 2005 balance includes $2,094 for equipment being held by FCC component entities. No balance is available for FY 2004. All asset classes are depreciated on a straight-line basis.

Note 10 - Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2005 and 2004:

	2005	2004
Intragovernmental:		
Other:		
FECA Liability	$ 457	$ 448
Other:		
Unfunded Leave	17,052	17,102
Accrued Liabilities for Universal Service	418,826	385,989
Total liabilities not covered by budgetary resources	436,335	403,539
Total liabilities covered by budgetary resources	2,846,682	4,658,526
Total Liabilities	$ 3,283,017	$ 5,062,065

The Federal Employees Compensation Act (FECA) liability represents the amount of bills received by the Department of Labor for worker's compensation. These bills are received one year in advance of when they are due and are not funded until the subsequent fiscal year.

Unfunded Leave is funded at the time the leave is taken, and is therefore not funded with current year budgetary resources.

Note 11 - Debt

	2004 Beginning Balance	Net Borrowing	2004 Ending Balance	Net Borrowing	2005 Ending Balance
Agency Debt:					
Held by the Public	$ 55,848	(55,848)	-	-	-
Other Debt:					
Debt to the Treasury	5,065,438	(1,124,674)	3,940,764	(2,666,966)	1,273,798
Total Debt	$ 5,121,286	$ (1,180,522)	$ 3,940,764	$(2,666,966)	$ 1,273,798

Classification of Debt:

	2005	2004
Debt to the Treasury	$ 1,273,798	$ 3,940,764
Debt held by the Public	-	-
Total Debt	$ 1,273,798	$ 3,940,764

Agency debt represents the remaining liability on an initial voucher of $125,274 issued to settle successful litigation against the FCC.

The FCC also borrows from the Treasury for costs associated with its spectrum auction loan program. Borrowings, pertaining to all loan cohorts, are determined by calculating the subsidy estimates and reestimates in accordance with the FCRA of 1990, as amended.

Note 12 - Other Liabilities

The following summarizes Other Liabilities as of September 30, 2005 and 2004:

FY 2005	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 222,350	$ 222,350
Accrued Interest on Debt	-	-	-
Other:			
Accrued Payroll	-	1,339	1,339
FECA Liability	-	457	457
Other	-	30	30
Total Other	-	1,826	1,826
Total Intragovernmental	$ -	$ 224,176	$ 224,176
Deferred Revenue	$ 18,135	$ 1,167,639	$ 1,185,774
Prepaid Contributions	-	57,360	57,360
Deposit/Unapplied Liability	-	5,232	5,232
Accrued Liabilities for Universal Service	-	418,826	418,826
Other:			
Accrued Payroll	-	7,009	7,009
Unfunded Leave	-	17,052	17,052
Other	-	19,339	19,339
Total Other	-	43,400	43,400
Total Other Public	$ 18,135	$ 1,692,457	$ 1,710,592

FY 2004	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 310,130	$ 310,130
Accrued Interest on Debt	-	-	-
Other:			
Accrued Payroll	-	1,164	1,164
FECA Liability	-	448	448
Other	-	-	-
Total Other	-	1,612	1,612
Total Intragovermental	$ -	$ 311,742	$ 311,742
Deferred Revenue	$ 16,967	$ 65,022	$ 81,989
Prepaid Contributions	-	159,260	159,260
Deposit/Unapplied Liability	-	83,038	83,038
Accrued Liabilities for Universal Service	-	385,989	385,989
Other:			
Accrued Payroll	-	6,316	6,316
Unfunded Leave	-	17,102	17,102
Other	-	19,488	19,488
Total Other	-	42,906	42,906
Total Other Public	$ 16,967	$ 736,215	$ 753,182

Note 12 - Other Liabilities (continued)

The Custodial Liability includes both cash collected and receivables being held for transfer to the Treasury's General Fund. The FCC collects the following types of custodial revenue: spectrum auction revenue, fines and forfeitures revenue, penalty revenue on regulatory fees, ITS processing fees, and interest revenue on auction deposits (held for TDF). Deferred revenue represents regulatory fees, spectrum auction revenue, or contributor payments that have been received but not earned by the FCC.

Deposit/Unapplied Liability represents upfront deposits made by auction bidders as well as funds received that are being held until proper application is determined. Prepaid Contributions includes contribution overpayments that may be refunded and USF contributions paid in advance that will be drawn down during the year. Accrued Liabilities for Universal Service represent liabilities recorded by the USF for anticipated subsidies in the High Cost, Low Income, and TRS programs. The obligation for these subsidies is not recognized until payment files are approved in the subsequent month.

Note 13 - Leases

Operating Leases

The FCC has operating leases for rental of office space and office equipment. The copier lease arrangements are renewable annually with five possible annual renewal periods. As a Federal agency the FCC is not liable for any lease terms beyond one year. The FCC anticipates that space levels consistent with FY 2005 will be required for the next five years and has estimated space and copier payments consistent with the schedule below. No estimates beyond five years have been provided because of the cancelable nature of the agreements.

Anticipated lease requirements are as follows:

Fiscal Year	Building	Copier	Total
2006	$ 39,898	$ 1,419	$ 41,317
2007	40,780	1,419	42,199
2008	41,684	1,419	43,103
2009	42,608	1,419	44,027
2010	43,348	1,419	44,767
Total Future Lease Payment	$ 208,318	$ 7,095	$ 215,413

Note 14 - Commitments and Contingencies

The FCC, USAC, and the Department of Justice are investigating several cases related to disbursements of USF funds from the schools and libraries program, which might result in future proceedings or actions. The complexity of these actions precludes management from estimating the total amount of recovery that may result from these actions.

The FCC is a party in various administrative proceedings, legal actions, and claims brought by or against the agency. In addition, several bankruptcy proceedings are ongoing related to the loan portfolio. In the opinion of FCC management, the ultimate resolution of proceedings, actions and claims will not materially affect the FCC's financial position or results of operations.

The FCC has examined its obligations related to FY 2000 cancelled authority and believes it has no outstanding commitments requiring future resources.

Note 15 – Intragovernmental Costs and Exchange Revenue

Intragovernmental costs primarily represent interest expense paid by the FCC on outstanding credit reform borrowing. Additional amounts are also recognized for goods and services purchased by the FCC from other Federal agencies. Intragovernmental revenue reported for the Statement of Net Cost will differ from Intragovernmental revenue reported in the RSI by $91,172 as a result of interest revenue earned by USF on Treasury bills being reported on the statement of changes in net position.

Program Costs – FY 2005

Program	Intragovernmental	Public	Total
Broadband	$ 6,792	17,901	24,693
Competition	29,987	6,649,264	6,679,251
Spectrum	316,376	187,141	503,517
Media	8,328	22,105	30,433
Homeland Security	9,765	25,680	35,445
Modernize the FCC	13,023	40,311	53,334
Total	384,271	6,942,402	7,326,673

Program Earned Revenue – FY 2005

Program	Intragovernmental	Public	Total
Broadband	-	26,995	26,995
Competition	-	118,231	118,231
Spectrum	102,729	387,158	489,887
Media	-	31,887	31,887
Homeland Security	990	35,963	36,953
Modernize the FCC	-	54,280	54,280
Total	103,719	654,514	758,233

Program Costs – FY 2004

Program	Intragovernmental	Public	Total
Broadband	5,416	14,800	20,216
Competition	32,847	5,940,956	5,973,803
Spectrum	396,417	1,319,520	1,715,937
Media	7,870	21,520	29,390
Homeland Security	8,779	25,161	33,940
Modernize the FCC	12,914	39,247	52,161
Total	464,243	7,361,204	7,825,447

Program Earned Revenue – FY 2004

Program	Intragovernmental	Public	Total
Broadband	-	21,388	21,388
Competition	-	125,921	125,921
Spectrum	52,656	494,710	547,366
Media	-	29,068	29,068
Homeland Security	544	34,273	34,817
Modernize the FCC	-	52,009	52,009
Total	53,200	757,369	810,569

Note 16 - Apportionment Categories of Obligations Incurred

The following summarizes Apportionment Categories of Obligations Incurred as of September 30, 2005 and 2004:

	FY 2005		FY 2004	
	Budgetary	Non-Budgetary	Budgetary	Non-Budgetary
Direct				
Category A	$ 365,848	$ -	$ 362,806	$ -
Category B	9,864,270	306,351	16,386,043	345,729
Total Direct	$ 10,230,118	$ 306,351	$16,748,849	$ 345,729
Reimbursable				
Category A	$ 1,359	$ -	$ 1,981	$ -
Category B	-	-	-	-
Total Reimbursable	$ 1,359	$ -	$ 1,981	$ -

Category A – Apportioned by Quarter
Category B – Apportioned by Purpose

Note 17 - Available Borrowing/Contract Authority, End of Period

The FCC receives borrowing authority consistent with the FCRA of 1990, as amended. The borrowing is authorized through an indefinite permanent authority at interest rates the Treasury sets each year. In addition, the FCC has permanent indefinite authority for subsidizing the spectrum auction direct loan program.

All borrowings are from the BPD. In accordance with applicable standards, all funds are borrowed at the beginning of the period. Therefore, the FCC does not carry over any unused borrowing authority. Repayments of borrowings are made in accordance with the terms of the FCRA of 1990, as amended. Financing sources for repayment are collections from borrowers or subsidy. The FCC had no available borrowing authority at September 30, 2005.

Note 18 - Terms of Borrowing Authority Used

The FCC has three types of financing sources: loan payments made by the public, interest from the Treasury, and subsidy expenses received from the Treasury. The FCRA of 1990 stipulates that the rate used for subsidy calculations, borrowings, and interest on uninvested funds must be for a maturity comparable to the maturity of the direct loans made to the public. The majority of FCC's direct loans have a maturity of ten years.

Note 19 – Legal Arrangements Affecting Use of Unobligated Balances

The FCC may carry forward regulatory fees received in excess of the legislative level contained in the FCC's annual appropriation language for use in the next fiscal year, subject to notification of the congressional appropriations subcommittees. All other no-year unobligated balances are available without restriction at the start of the next fiscal year, following apportionment by the OMB.

Note 20 - Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the U.S. Government

The schedule below presents differences for FY 2004. The *Budget of the United States Government* with actual numbers for FY 2005 has not been published. Pursuant to 31 USC § 1105, the *Budget of the United States Government* will be released the first Monday in February, and will be available at the following website: http:/www.whitehouse.gov/omb.

Budgetary Resources ($ in millions):	Combined Statement of Budgetary Resources 2004	President's Budget 2004	Difference	
Budget Authority	$ 16,690	$ 16,690	$ -	
Unobligated Balances – Beginning of Period	5	(5)	(10)	A
Spending Authority from Offsetting Collections	1,914	1,901	(13)	B
Adjustments	(1,180)	(1,183)	(3)	C
Total Budgetary Resources	17,429	17,403	(26)	
Status of Budgetary Resources ($ in millions):				
Obligations Incurred	$ 17,097	$ 17,030	$ (67)	D
Unobligated Balances – Available	250	373	123	E
Unobligated Balances – Not Available	82	-	(82)	F
Total, Status of Budgetary Resources	17,429	17,403	(26)	
Outlays ($ in millions):				
Obligations Incurred	$ 17,097	$ 17,030	$ (67)	D
Less: Spending Authority from Offsetting Collections and Adjustments	(1,914)	(1,914)	-	
Obligated Balance, net – Beginning of Period	140	140	-	
Less: Obligated Balance, net – End of Period	(3,022)	(3,022)	-	
Total Outlays	12,301	12,234	(67)	D
Less: Offsetting Receipts	21	21	-	
Net Outlays	$ 12,280	$ 12,213	$ (67)	

Note 20 - Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the U.S. Government (continued)

A –The financial statements must account for ($10) million in unavailable authority related to prior year expired accounts. The budget balances only incorporate available authority.

B – The budget reflects the $13 million balance of current and past fiscal year regulatory fees collected in excess of the congressionally mandated target as a reduction to authority. The CFS reflects this balance on the unobligated balances – not available line. The presentation change was made during the OMB Max submission process after issuance of the CFS.

C – The budget does not include recoveries of ($9) million or cancelled and other returned authority of $6 million as part of the adjustments line.

D – The exclusion of upward adjustments from the budget accounts for ($4) million. The adjustments to USF Undelivered orders in FY 2005 accounts for $63 million (See Note 24).

E – The unapportioned balances for all no-year accounts, totaling $60 million, are reported in the budget as available but are reported as unavailable in the financial statements until they are re-apportioned the following year. The adjustments to USF Undelivered orders in FY 2005 accounts for $63 million (See Note 24).

F – The financial statements include expired unobligated balances of ($9) million, while the budget does not reflect this amount. The CFS also includes the ($13) million regulatory fee balance and the ($60) million in unapportioned no-year balances on this line, while the budget reflects these balances elsewhere (see explanations C & F).

Note 21 - Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

Two amounts are shown in Note 10 as not covered by budgetary resources: FECA Liability and Unfunded Leave. The changes in both of these balances between FY 2004 and FY 2005 are reflected as part of Components Requiring or Generating Resources in Future Periods on the Statement of Financing. The increase in unfunded leave of $50 is included in the increase in Annual Leave line on the Statement of Financing, and the increase in FECA Liability of $9 is included as part of the Resources that fund expenses recognized in prior periods line item.

Note 22 - Description of Transfers that Appear as a Reconciling Item on the Statement of Financing

The FCC collects applications fees to cover the cost of processing license applications. The FCC reports the revenue associated with these fees as a revenue source on its Statement of Net Cost, but does not retain the fees. To reflect the transfer of these fees to the Treasury, the FCC recognizes a transfer out on the Statement of Changes in Net Position. The amount of $25,463 included in the Offsetting Receipts line on the Statement of Financing is the total transferred for application fees.

Note 23 - Dedicated Collections

U.S. telecommunication companies are obligated to pay assessments for Universal Service support and for Telecommunications Relay Service, established by the FCC. These assessments are accounted for in the Budget of the U.S. Government as the "Universal Service Fund." The FCC currently recognizes the assessments collected under the USF Program as non-exchange revenue on its Statement of Changes in Net Position, and the related disbursements as program expenses on the Statement of Net Cost.

The following summarizes the significant assets, liabilities, and related costs incurred with managing the USF Program. See Required Supplementary Information for complete disclosure of all activity related to the USF Program.

The following summarizes Dedicated Collections as of September 30, 2005 and 2004:

	FY 2005	FY 2004
Assets		
Cash and Other Monetary Asset	$ 48,150	$ 199,784
Investments	4,139,945	3,257,368
Accounts Receivable, Net	652,747	561,157
PPE, net	1,944	-
Other	10,447	-
Liabilities & Net Position		
Accounts Payable	$ 67,748	$ 47,413
Unearned Revenue	32,503	30,000
Prepaid Contributions	57,329	159,221
Accrued Liabilities	418,826	385,989
Net Position	4,276,826	3,395,686
Revenues & Expenses		
Contributions	$ 7,354,754	$ 6,309,741
Interest Revenue	93,174	36,162
Penalty Revenue	1,356	4,366
Provider Related Expenses	$ 6,485,904	$ 5,779,605
Fund Administration Expenses	82,239	66,627
Loss on Disposition of Investments	-	4,808

Administrative costs are expenses related to managing and overseeing the USF Program. The USF Program is charged administrative expenses by the USAC and the NECA for expenses such as salaries and benefits of the employees dedicated to managing the universal service support mechanisms and the telecommunications relay services mechanism; rent and utilities for office space used; providing accounting and other financial reporting related services; and other miscellaneous activities.

Note 24 – Adjustments to Beginning Balance of Budgetary Resources

The FCC has adjusted the Unobligated Balance – Beginning of Period balance downward by $13,983 from $286,554 in the FY 2004 published financial statements to $272,571. The decrease is the net of an increase in resources of $48,956 related to Treasury reporting and a decrease of $62,939 for adjustments related to undelivered orders. These adjustments are discussed in more detail below.

Adjustment for Treasury Reporting

Shortly after the close of FY 2004 the FCC was notified by Treasury that a negative cash balance was being reflected on Treasury reports for the Universal Service Fund. The negative balance stemmed from the use of Money Market funds by USF to invest all available cash. While the funds were available to the USF to fund outstanding checks, on Treasury reports they were reflected as investments that had been outlayed. The outlay left no available funding in the cash column of the Treasury report to cover outstanding checks. Based on Treasury interpretation, the FCC processed a reporting entry to recognize the redemption of $48,956 at the point the checks were issued instead of the point of presentment.

To reflect the adjustment in the FY 2005 financial statements the FCC increased the FY 2004 Appropriations Received balance from $16,637,922 to $16,686,878. The FCC also increased the FY 2004 Unobligated, Other Available balance by $48,956 which combined with adjustments outlined below resulted in a decrease from $261,343 to $247,360.

Adjustment to USF Undelivered Orders

The USF recognized obligations in relation to commitment letters issued for the Rural Healthcare and Schools and Libraries programs for the first time in FY 2004. The decision to record these obligations in the financial statements was made late in the fiscal year and afforded limited time to fully review the process used to generate the $2,900,130 Undelivered Orders balance recorded by USF for FY 2004. Subsequent review by USF during FY 2005 identified two changes to the process that would have generated a higher balance if in place at the close of FY 2004. The first change was the inclusion of database records with a pending or denied status in the determination of the outstanding balance. Inclusion of these records in FY 2004 would have increased the Undelivered Orders balance by $28,975. The second change was the recognition that there are situations that occur regularly that allow a previously expired commitment amount to be re-established and paid. An analysis of these situations identified an additional increase to the FY 2004 Undelivered Orders balance of $33,964.

The FCC has increased the FY 2004 Undelivered Orders balance by $62,939 for these changes and has accrued a FY 2005 Undelivered Orders amount of $43,510 to cover expired obligations related to the FY 2005 balance. Other accounts affected by the FY 2004 adjustments were Obligations Incurred, Direct which increased from $16,685,910 to $16,748,849, and Unobligated, Other Available which combined with the Treasury reporting adjustment decreased from $261,343 to $247,360. The change to obligations incurred also had a corresponding impact to the Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not yet Provided on the Statement of financing which increased from $2,880,985 to $2,943,924.

Adjustment to Beginning Balance (FY 2004)

In FY 2003 the FCC reported Money Market funds on the Balance Sheet as cash equivalents and as available budgetary authority on the Combined Statement of Budgetary Resources (SBR). In FY 2004, subsequent re-evaluation of OMB Circular A-11 (OMB A-11) *Preparation, Submission, and Execution of the Budget*, guidance led the FCC to believe that if the Money Market shares are not purchased in funds backed wholly by Treasury securities, they should be recorded as outlays and therefore do not represent available budgetary authority. Accordingly money market funds were reported as outlays in FY 2004. A beginning balance adjustment of ($2,398,337) was made to the Unobligated Balance: Beginning of Period in FY 2004 to reflect the impact on opening balances.

The FCC reclassified the presentation of USF's High Cost, Low Income, and TRS support mechanisms' accounts payable totaling $385,989 and $340,479, in FYs 2004 and 2003 respectively, from Accounts Payable to Accrued Liability for Universal Service (Other Liabilities). The FCC also determined, in consultation with the Treasury and OMB, that the estimated accrued liabilities were not obligations as of September 30, 2004 and 2003. A beginning balance adjustment of $340,479 was made to the Unobligated Balance; Beginning of Period in FY 2004 to reflect the impact on opening balances. This adjustment is part of the total amount of $2,057,858 reported as the Adjustment to Beginning Balance on the SBR.

Note 25 – Unaudited Statements

During the course of FY 2004 the FCC and USAC began to address issues concerning the recognition of commitment letters and money market fund purchases that represented a substantial increase to the obligations of the fund. These issues prevented the FCC from providing full management representation on the Statement of Budgetary Resources and Statement of Financing in FY 2004. As a result, the FCC's auditor did not express an opinion on these statements.

Note 26 – Comparability of the Financial Statements

The FCC has reclassified unapplied collections of $7,815 related to the Credit Reform Finance Account from Deposit/ Unapplied Liability to Deferred Revenue on the Balance Sheet. The reclassification was made for consistency with a FY 2005 reporting change requested by Treasury.

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UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION

Note: The accompanying notes are an integral part of these statements

UNAUDITED INTRAGOVERNMENTAL ASSETS

As of September 30, 2005
(Dollars in thousands)

Intra-Governmental Assets

Partner Code	Trading Partner	Fund Balance	Accounts Receivable	Investments	Total
13	Department of Commerce-NTIA				-
15	Department of Justice		1		1
17	Navy		596		596
19	Department of State		3		3
20	Department of Treasury	1,522,785	-	4,139,945	5,662,730
21	Army		595		595
24	Office of Personnel Management				-
47	Genersal Services Administration		3		3
57	Air Force		142		142
69	Department of Transportation		32		32
70	Homeland Security		76		76
80	NASA		1		1
95	Board of International Broadcasting		1		1
97	Department of Defense	-	3,546		3,546
	Total	**1,522,785**	**4,996**	**4,139,945**	**5,667,726**

Intra-Governmental Liabilities

Partner Code	Trading Partner	Accounts Payable	Borrowings From Treasury (BPD)	Other Liabilities	Total
	Funded				
20	Department of Treasury	-	1,273,798	-	1,273,798
16	Department of Labor	-	-	487	487
24	Office of Personnel Management	-	-	1,036	1,036
99	General Fund/Other	-	-	222,653	222,653
	Total	**-**	**1,273,798**	**224,176**	**1,497,974**

UNAUDITED INTRAGOVERNMENTAL EARNED REVENUES AND RELATED COSTS

As of September 30, 2005
(Dollars in thousands)

Intragovernmental Earned Revenues and Related Costs

Partner Code	Trading Partner	Earned Revenue	Expenses
03	Library of Congress	$ -	$ (18)
04	Government Printing Office	-	1,988
10	Judiciary System		2
12	Department of Agriculture & NFC		251
13	Department of Commerce	43	118
14	Department of Interior		1,933
15	Department Of Justice	153	15,461
16	Department of Labor		212
18	United States Postal Service		136
19	U. S. Department of State		3
20	Department of Treasury	193,621	269,308
24	Office of Personnel Management		42,763
45	Equal Employment Opportunity		2
47	General Services Administration		42,648
69	Dept. of Transportation - USCG		
70	Homeland Security Admin.	303	351
75	Health and Human Services -FOH		49
95	Board for International Broadcasting	221	
97	Department of Defense	550	20
99	U S Treasury General Fund/Payroll Taxes		9,044
	Total	194,891	384,271

NFC - National Finance Center
USCG - United States Coast Guard
FOH - Federal Occupational Health

DEFERRED MAINTENANCE

As of September 30, 2005
(Dollars in thousands)

To determine the original estimated cost of deferred maintenance in FY 2000, the FCC contracted with professional building inspectors to inspect its real property holdings, including buildings and structures. In most cases the inspection reports were comprehensive reviews of the buildings and ground conditions and included all items that required attention, whether critical to the functionality of the building or a cosmetic feature. Each year, the FCC updates the report from the previous year for items completed and newly identified projects. The estimated deferred maintenance for FY 2005 is $1,538.

UNAUDITED CONSOLIDATING BALANCE SHEET

As of September 30, 2005
(Dollars in thousands)

	FCC	USF	NANP	Eliminations	Consolidated
ASSETS					
Intragovernmental					
Fund Balance with Treasury (Note 3)	$ 1,522,785	$ -	$ -	$ -	$ 1,522,785
Investments (Note 5)		4,139,945	-	-	4,139,945
Accounts Receivable (Note 6)	4,996	-	-	-	4,996
Total Intragovernmental	1,527,781	4,139,945	-	-	5,667,726
Cash and Other Monetary Assets (Note 4)	749	48,150	8,215	-	57,114
Investments (Note 5)	-	-	-	-	-
Accounts Receivable, net (Note 6)	98,251	652,747	84	(77,589)	673,493
Loans Receivable, net (Note 7)	1,257,265	-	-	-	1,257,265
General Property, Plant, and Equipment, net (Note 9)	49,104	1,944	150	-	51,198
Other	-	10,447	-	-	10,447
Total Assets	$ 2,933,150	$ 4,853,233	$ 8,449	$ (77,589)	$ 7,717,243
LIABILITIES					
Intragovernmental					
Debt (Note 11)	$ 1,273,798	$ -	$ -	$ -	$ 1,273,798
Other (Note 12)					
Custodial	222,350	-	-	-	222,350
Other	1,826	-	-	-	1,826
Total Other	224,176	-	-	-	224,176
Total Intragovernmental	1,497,974	-	-	-	1,497,974
Accounts Payable	5,634	67,748	1,069	-	74,451
Other (Note 12)					
Deferred Revenue	1,152,629	32,503	642	-	1,185,774
Prepaid Contributions	-	57,329	31	-	57,360
Deposit/Unapplied Liability	5,232	-	-	-	5,232
Accrued Liabilities For Universal Service	-	418,826	-	-	418,826
Other	120,064	-	925	(77,589)	43,400
Total Other	1,277,925	508,658	1,598	(77,589)	1,710,592
Total Liabilities	$ 2,781,533	$ 576,406	$ 2,667	$ (77,589)	$ 3,283,017
Commitments and Contingencies (Note 14)					
NET POSITION					
Unexpended Appropriations	$ 24,617	$ -	$ -	$ -	$ 24,617
Cumulative Results of Operations	127,000	4,276,827	5,782	-	4,409,609
Total Net Position	151,617	4,276,827	5,782	-	4,434,226
Total Liabilities and Net Position	$ 2,933,150	$ 4,853,233	$ 8,449	$ (77,589)	$ 7,717,243

UNAUDITED CONSOLIDATING STATEMENT OF NET COST

As of September 30, 2005
(Dollars in thousands)

	FCC	USF	NANP	Consolidated
PROGRAM COSTS:				
Broadband:				
Gross costs	$ 24,692	$ -	$ -	$ 24,692
Less: Earned Revenue	(26,995)	-	-	(26,995)
Net Program Costs	(2,303)	-	-	(2,303)
Competition:				
Gross costs	107,989	6,568,143	3,120	6,679,252
Less: Earned Revenue	(113,870)	-	(4,361)	(118,231)
Net Program Costs	(5,881)	6,568,143	(1,241)	6,561,021
Spectrum:				
Gross costs	503,517	-	-	503,517
Less: Earned Revenue	(489,887)	-	-	(489,887)
Net Program Costs	13,630	-	-	13,630
Media:				
Gross costs	30,433	-	-	30,433
Less: Earned Revenue	(31,887)	-	-	(31,887)
Net Program Costs	(1,454)	-	-	(1,454)
Homeland Security:				
Gross costs	35,445	-	-	35,445
Less: Earned Revenue	(36,953)	-	-	(36,953)
Net Program Costs	(1,508)	-	-	(1,508)
Modernize the FCC:				
Gross costs	53,334	-	-	53,334
Less: Earned Revenue	(54,280)	-	-	(54,280)
Net Program Costs	(946)	-	-	(946)
Total Net Program Costs	1,538	6,568,143	(1,241)	6,568,440
Cost not Assigned to Programs:				
Telecommunications Development Fund	1,314	-	-	1,314
Other Expenses	(759)	-	-	(759)
Less: Earned Revenues not Attributed to Programs:				
Telecommunications Development Fund	(1,314)	-	-	(1,314)
Net Cost of Operations	$ 779	$ 6,568,143	$ (1,241)	$ 6,567,681

UNAUDITED CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2005
(Dollars in thousands)

	FCC		USF		NANP		Consolidated	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ (1,132,749)	$ 38,155	$ 3,395,686	$ -	$ 4,541	$ -	$ 2,267,478	$ 38,155
Budgetary Financing Sources:								
Appropriations received	-	1,260,763	-	-	-	-	-	1,260,763
Other adjustments (recission, etc) (+/-)	(1,095)	(1,664)	-	-	-	-	(1,095)	(1,664)
Appropriations used	1,272,637	(1,272,637)	-	-	-	-	1,272,637	(1,272,637)
Universal Fund Nonexchange Revenue	-	-	7,449,284	-	-	-	7,449,284	-
Other Financing Sources:								
Transfers-in/out without reimbursement (+/-)	(25,463)	-	-	-	-	-	(25,463)	-
Imputed financing from costs absorbed by others	14,449	-	-	-	-	-	14,449	-
Total Financing Sources	1,260,528	(13,538)	7,449,284	-	-	-	8,709,812	(13,538)
Less: Net Cost of Operations	779		6,568,143		(1,241)		6,567,681	
Ending Balances	$ 127,000	$ 24,617	$ 4,276,827	$ -	$ 5,782	$ -	$ 4,409,609	$ 24,617

UNAUDITED COMBINING STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2005
(Dollars in thousands)

	FCC		USF		Combined	
	Budgetary	Non Budgetary Credit Program Financing Acct	Budgetary	Non Budgetary Credit Program Financing Acct	Budgetary	Non Budgetary Credit Program Financing Acct
Budgetary Resources:						
Budget Authority						
Appropriations Received	$ 1,260,763	$ -	$ 8,638,673	$ -	$ 9,899,436	$ -
Borrowing Authority	-	38,124	-	-	-	38,124
Unobligated Balance:						
Beginning of Period (Note 24)	25,211	59,507	247,360	-	272,571	59,507
Adjustment to Beginning Balance (Note 24)	-	-	-	-	-	-
Adjusted - Beginning of Period	25,211	59,507	247,360	-	272,571	59,507
Spending Authority from Offsetting Collections:						
Earned						
Collected	416,792	2,981,006	-	-	416,792	2,981,006
Receivable from Federal Sources	(342)	-	-	-	(342)	-
Change in Unfilled Customer Orders			-	-	-	
Advance Received	-	-	-	-	-	-
Without Advance from Federal Sources	13	-	-	-	13	-
Anticipated for rest of year, without advances	-	-	-	-	-	-
Subtotal	1,702,437	3,078,637	8,886,033	-	10,588,470	3,078,637
Recoveries of Prior Year Obligations	1,842	-	662,274	-	664,116	-
Temporarily not available pursuant to Public Law	(12,000)	-	-	-	(12,000)	-
Permanently not available	(2,742)	(2,705,090)	-	-	(2,742)	(2,705,090)
Total Budgetary Resources	$ 1,689,537	$ 373,547	$ 9,548,307	$ -	$ 11,237,844	$ 373,547
Status of Budgetary Resources:						
Obligations Incurred (Note 16):						
Direct	$ 1,660,628	$ 306,351	$ 8,569,490	$ -	$ 10,230,118	$ 306,351
Reimbursable	1,359	-	-	-	1,359	-
Subtotal	1,661,987	306,351	8,569,490	-	10,231,477	306,351
Unobligated Balance:						
Apportioned	6,156	382	211,293	-	217,449	382
Other Available	-	-	-	-	-	-
Unobligated Balance not Available	21,394	66,814	767,524	-	788,918	66,814
Total Status of Budgetary Resources	$ 1,689,537	$ 373,547	$ 9,548,307	$ -	$ 11,237,844	$ 373,547
Relationship of Obligations to Outlays:						
Obligated Balance, net, Beginning of Period	$ 74,714	$ -	$ 3,010,481	$ -	$ 3,085,195	$ -
Obligated Balance Transferred, net	-	-	-	-	-	-
Obligated Balance, net, End of Period:			-	-		
Accounts Receivable	(15)	-	-	-	(15)	-
Unfilled Customer Orders from Federal Sources	-	-	-	-	-	-
Undelivered Orders	48,174	-	3,124,323	-	3,172,497	-
Accounts Payable	24,889	-	67,748	-	92,637	-
Outlays:						
Disbursements	1,662,139	306,351	7,725,626	-	9,387,765	306,351
Collections	(416,792)	(2,981,006)	-	-	(416,792)	(2,981,006)
Subtotal	1,245,347	(2,674,655)	7,725,626	-	8,970,973	(2,674,655)
Less: Offsetting Receipts	25,463	-	-	-	25,463	-
Net Outlays	1,219,884	(2,674,655)	7,725,626	-	8,945,510	(2,674,655)

UNAUDITED CONSOLIDATING STATEMENT OF FINANCING

As of September 30, 2005
(Dollars in thousands)

	FCC	USF	NANP	Consolidated
Resources Used to Finance Activities:				
Budgetary Resources Obligated				
Obligations incurred	$ 1,968,338	8,569,490	$ -	$ 10,537,828
Less: Spending authority from offsetting collections and recoveries	3,399,311	662,274	-	4,061,585
Obligations net of offsetting collections and recoveries	(1,430,973)	7,907,216	-	6,476,243
Less: Offsetting receipts	25,463	-	-	25,463
Net obligations	(1,456,436)	7,907,216	-	6,450,780
Other Resources				
Transfers in/out without reimbursement (+/-)	25,463	-	-	25,463
Imputed financing from costs absorbed by others	14,449	-	-	14,449
Other (+/-)	-	-	-	-
Net other resources used to finance activities	39,912	-	-	39,912
Total resources used to finance activities	(1,416,524)	7,907,216	-	6,490,692
Resources Used to Finance Items not Part of the Net Cost of Operations				
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided (+/-)	(3,266)	171,701	-	168,435
Resources that fund expenses recognized in prior periods	1,269,099	-	-	1,269,099
Budgetary offsetting collections and receipts that do not affect net cost of operations				
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	(3,016,923)	-	-	(3,016,923)
Other	350,860	-	-	350,860
Resources that finance the acquisition of assets	12,121	1,125,687	-	1,137,808
Other resources or adjustments to net obligated resources that do not affect net cost of operations (+/-)	-	57,786	-	57,786
Total resources used to finance items not part of the net cost of operations	(1,388,109)	1,355,174	-	(32,935)
Total resources used to finance the net cost of operations	(28,415)	6,552,042	-	6,523,627
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Periods:				
Increase in annual leave liability	-	-	-	-
Upward/Downward reestimates of credit subsidy (+/-)	(44,224)	-	-	(44,224)
Increase in exchange revenue receivable from the public	2,957	-	-	2,957
Other (+/-)	(10)	32,215	-	32,205
Total components of Net Cost of Operations that will require or generate resources in future periods	(41,277)	32,215	-	(9,062)
Components not Requiring or Generating Resources:				
Depreciation and Amortization	16,376	418	128	16,922
Other (+/-)	54,095	(16,532)	(1,369)	36,194
Total components of Net Cost of Operations that will not require or generate resources	70,471	(16,114)	(1,241)	53,116
Total components of Net Cost of Operations that will not require or generate resources in the current period	29,194	16,101	(1,241)	44,054
Net Cost of Operations	$ 779	6,568,143	$ (1,241)	$ 6,567,681

UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF BUDGETARY RESOURCES

For the Periods Ended September 30, 2005 and 2004
(Dollars in thousands)

FY2005	**S&E**	**Credit**	**Auctions**	**USF**	**Total**
Budgetary Resources:					
Budget authority	$ 987	$ 1,297,900	$ -	$ 8,638,673	$ 9,937,560
Unobligated balances - beginning of period	18,004	62,321	4,393	247,360	332,078
Spending authority from offsetting collections	294,345	3,018,124	85,000	-	3,397,469
Adjustments	(11,994)	(2,705,091)	(905)	662,274	(2,055,716)
Total budgetary resources	$ 301,342	$ 1,673,254	$ 88,488	$ 9,548,307	$ 11,611,391
Status of Budgetary Resources:					
Obligations incurred	$ 282,538	$ 1,601,111	$ 84,689	$ 8,569,490	$ 10,537,828
Unobligated balances - available	686	5,330	522	211,293	217,831
Unobligated balances - not available	18,118	66,813	3,277	767,524	855,732
Total, status of budgetary resources	$ 301,342	$ 1,673,254	$ 88,488	$ 9,548,307	$ 11,611,391
Relationship of Obligations to Outlays:					
Obligated balance, net, beginning of period	$ 30,229	$ 15,804	$ 28,681	$ 3,010,481	$ 3,085,195
Obligated balance transferred, net	-	-	-	-	-
Obligated balance, net, end of period	33,010	10,553	29,485	3,192,071	3,265,119
Outlays:					
Disbursements	278,317	1,606,361	83,812	7,725,626	9,694,116
Collections	(294,675)	(3,018,124)	(84,999)	-	(3,397,798)
Subtotal	(16,358)	(1,411,763)	(1,187)	7,725,626	6,296,318
Less: Offsetting Receipts	25,463	-	-	-	25,463
Net Outlays	$ (41,821)	$ (1,411,763)	$ (1,187)	$ 7,725,626	$ 6,270,855

UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF BUDGETARY RESOURCES (continued)

For the Periods Ended September 30, 2005 and 2004
(Dollars in thousands)

FY 2004	S&E	Credit	Auctions	USF	Total
Budgetary Resources:					
Budget authority	$ 990	$ 640,888	$ -	$ 16,047,791	$ 16,689,669
Unobligated balances - beginning of period	4,451	49,988	6,148	(56,185)	4,402
Spending authority from offsetting collections	343,217	1,486,248	85,000	-	1,914,465
Adjustments	(51,173)	(1,127,277)	(1,449)	-	(1,179,899)
Total budgetary resources	$ 297,485	$ 1,049,847	$ 89,699	$ 15,991,606	$ 17,428,637
Status of Budgetary Resources:					
Obligations incurred	$ 279,480	$ 987,526	$ 85,307	$ 15,744,246	$ 17,096,559
Unobligated balances - available	(15)	3,060	1	247,360	250,406
Unobligated balances - not available	18,020	59,261	4,391	-	81,672
Total, status of budgetary resources	$ 297,485	$ 1,049,847	$ 89,699	$ 15,991,606	$ 17,428,637
Relationship of Obligations to Outlays:					
Obligated balance, net, beginning of period	$ 35,579	$ 17,888	$ 30,746	$ 56,185	$ 140,398
Obligated balance transferred, net	-	-	-	-	-
Obligated balance, net, end of period	30,229	15,804	28,680	3,010,482	3,085,195
Outlays:					
Disbursements	277,396	989,422	85,586	12,789,949	14,142,353
Collections	(342,527)	(1,486,248)	(85,000)	-	(1,913,775)
Subtotal	(65,131)	(496,826)	586	12,789,949	12,228,578
Less: Offsetting Receipts	20,159	-	-	-	20,159
Net Outlays	$ (85,290)	$ (496,826)	$ 586	$ 12,789,949	$ 12,208,419

Independent Auditor's Report

To the Inspector General of the
Federal Communications Commission

We were engaged to audit the consolidated balance sheets of the Federal Communications Commission (FCC) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, financing, custodial activity and combined statements of budgetary resources for the years then ended (collectively the financial statements). These financial statements are the responsibility of the FCC's management.

As part of our audit, we requested management's written representations as required by professional standards. The chairman of the FCC (head of the agency) would not sign the management representation letter. In addition, we requested, but were unable to interview the chairman regarding his knowledge, awareness and understanding of fraud and fraud risks of the organization. Thus, we were unable to complete our inquiries of management about the risks of fraud, as required by professional standards. As a result, we did not obtain sufficient, competent evidential matter for applying audit procedures necessary to conduct an audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements,* as amended.

Because we were unable to apply all necessary auditing procedures to conduct an audit in accordance with the standards and OMB Bulletin No. 01-02, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the FCC's financial statements for the fiscal year ended September 30, 2005.

The financial statements for the year ended September 30, 2004 were audited by us and we expressed an unqualified opinion on the balance sheet, statement of changes in net position, and statement of custodial activity; a qualified opinion on the statement of net cost; and a disclaimer of opinion on the statements of budgetary resources and financing in our report dated November 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 1, 2005 on our consideration of the FCC's internal control over financial reporting,

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and on our tests of the FCC's compliance with certain provisions of laws and regulations. Those reports are an integral part of our audits performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Discussion and Analysis, required supplementary information, and other accompanying information contain a wide range of data, some of which is not directly related to the financial statements. We do not express an opinion on this information.

Clifton Gunderson LLP

Calverton, Maryland
November 1, 2005

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Internal Control over Financial Reporting

To the Inspector General of the
Federal Communications Commission

We were engaged to audit the consolidated balance sheets of the Federal Communications Commission (FCC) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, financing, custodial activity and combined statements of budgetary resources for the years then ended (collectively the financial statements) and have issued our report thereon dated November 1, 2005. In that report we disclaimed our opinion on FCC's financial statements because we were unable to apply all necessary auditing procedures to conduct an audit in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* (GAS) and Office of Management and Budget (OMB) Bulletin No. 01-02*, Audit Requirements for Federal Financial Statement,* as amended. The chairman of the FCC (head of the agency) would not sign the management representation letter. In addition, we requested, but were unable to interview the chairman regarding his knowledge, awareness and understanding of fraud and fraud risks of the organization.

In planning and performing our engagement, we considered FCC's internal control over financial reporting by obtaining an understanding of FCC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in GAS and OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act* (FMFIA) (31 U.S.C. 3512), such as those controls relevant to ensuring efficient operations. The objective of our engagement was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the FCC's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be

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material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected.

We noted certain matters discussed in the following paragraphs involving the internal control over financial reporting and its operation that we consider to be reportable conditions and material weaknesses. As discussed in our *Independent Auditor's Report,* the scope of our work was not sufficient to express an opinion on the financial statements of FCC as of and the year ended September 30, 2005, and accordingly, other matters involving internal control over financial reporting may have been identified and reported had we been able to perform all procedures necessary to express an opinion.

Finally, with respect to internal control related to performance measures reported in FCC's Performance and Accountability Report, as of September 30, 2005, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls. Moreover, other matters involving internal control over reported performance measures may have been identified and reported had we been able to perform all procedures necessary to express an opinion on the financial statements of FCC as of and for the year ended September 30, 2005.

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MATERIAL WEAKNESSES

I. Control Environment Changes

During the fiscal year 2005 financial statement audit, the control environment changed to a less positive one, impacting the financial activities associated with the reporting components, the audit of FCC's financial statements, and potentially compromising the independence of the Office of Inspector General (OIG).

FCC has the overall responsibility for the financial accounting of its component entities, the Universal Service Fund (USF), the Telecommunications Relay Services Fund (TRS), and the North American Numbering Plan (NANP). In many instances, the component entities consult with FCC or obtain FCC's written approval, concurrence, or direction before implementing critical accounting issues; wherein some of these issues may impact program policies. Our prior year recommendations for strengthening FCC's oversight responsibilities, by clearly defining and establishing key lines of authority and responsibility for financial reporting, and formally communicating those official responsibilities throughout the FCC and directly with the administrators of the component entities, were not fully implemented, despite the January 2005 issuance of an order amending Commission rules to clarify the responsibilities of the Managing Director with respect to financial management matters.

This order, FCC 04-163, was intended to provide the Managing Director with the responsibility and authority for accounting for all financial transactions of the Commission and preparation of the financial statements, codifying Commission practice. The order authorizes the Managing Director to determine the programs and accounts included in the Commission's financial statements after seeking the opinion of the General Counsel, and delegates specific authority to the Managing Director to direct all organizations, funds, and accounts accounted for in the financial statements of the Commission to comply with all relevant and applicable Federal financial management and reporting statutes. The order was effective immediately upon publication in the Federal Register. However, despite the formally issued order clarifying the Managing Director's financial management role, the control environment changed becoming less effective and creating inefficient processes.

Mid-fiscal year 2005 after the installation of a new head of the agency, an unofficial change in financial authority essentially nullified the January FCC order. Certain individuals presented themselves as representing the Chairman's office for all externally-related financial activities, without the benefit of either being organizationally from the Chairman's office, nor the benefit of formal communication delegating or authorizing this new financial management oversight role. Furthermore, the Managing Director was directed to obtain approval from the assumed representative and/or from the Office of the Chairman (OCM) for all financial-related activities and communications with external parties, including OMB. This requirement was in direct conflict with the order, unofficially eroding the stated responsibilities of the Managing Director, and undermining the auditors understanding of the FCC internal control environment. This has resulted in following conditions:

- During the audit, multiple requests from numerous FCC parties, not typically associated with financial management, were made of the auditors to explain the purpose and intent of key audit requirements. The following are two examples of how this resulted in inefficient and ineffective use of audit resources and impacted the audit in general:

  - One topic included at least 3 separate meetings on the purpose for conducting interviews with senior management, including the Chairman, as part of the Statement of Auditing Standards (SAS) No 99. *Consideration of Fraud in a Financial Statement Audit*. The Chairman would not agree to participate in the SAS 99 meeting, as requested, and it was not clear if the individuals, 'representing' the Chairman during those meetings communicated the purpose and/or intent of this common audit procedure. In addition, prior to meeting with the auditors, several senior managers informed us that they needed to obtain approval from the OCM first; this has not occurred in prior year audits.

  - Another topic requiring multiple meetings and other communications to satisfy the needs of various OCM 'representatives' was to discuss the purpose, expectations, and impact of who signs FCC's management representation letter for the financial statement audit. During fiscal year 2005, our audit work concluded that the internal control environment especially that over the reporting components, had changed significantly, requiring the head of the agency to sign the management representation letter. The Chairman would not agree to sign the representations, and it was not clear if the individuals, 'representing' the Chairman during those communications shared the purpose and/or intent of this common audit requirement to the Chairman.

- Although the participation of a delegated representative, openly authorized by the Chairman to act in this capacity, would normally strengthen communications between all parties during an audit, this was not the case. There was little two-way communication and on several occasions when the auditors and/or the Chief Financial Officer (CFO) asked for feedback on particular issues that were to have been communicated to the Chairman, the 'representatives' refused to share any information, including confirming whether the information had been communicated or not. This, combined with the number of different 'Chairman representatives' who were not explicitly delegated that authority created a level of uncertainty as to the appropriateness of auditor communication in general.

- Furthermore, this new environment with its additional oversight process compounded routine financial activities. Two examples are described below:

    - The mandated issuance of quarterly financial statements to OMB was delayed one time during fiscal year 2005, because of a new requirement by the unofficial representative of OCM to review the statements prior to release. This new review step had not been planned for by the CFO's office and took longer than expected.

    - Draft management comments to a preliminary draft auditor's report on internal control were scheduled to be provided within a two-week period as previously agreed. However, these were delayed for more than two weeks beyond the initially agreed upon period. This delay was caused by a new requirement for the OCM to review the comments prior to sharing them with the auditors on a partially complete product. This was an unplanned step that would normally be conducted closer to the finalized report, rather than on a working draft that typically circulates between the CFO and auditors.

- The new control environment extended beyond financial activities to the degree that it potentially compromised the independence of the Office of Inspector General during the audit period. Rather than communicate with the Inspector General (IG) to obtain a comprehensive understanding of the office needs, requirements, and restrictions on personnel, the OCM directed the Managing Director to transfer FCC programmatic staff into the OIG without the IG's approval and in one case without the IG's knowledge. Neither the OCM nor Managing Director was cognizant of requirements in the Inspector General Act regarding independence. The transfers were reversed shortly after the IG communicated to the OCM that the agency is legislatively required to assist in maintaining the independence of the office.

Two of the five standards for internal control as stated in the Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* are (a) control environment, and (b) information and communications:

(a) "A positive control environment is the foundation for all other standards for internal control. It provides discipline and structure as well as the climate which influences the quality of internal control. "One factor affecting the environment is the agency's organizational structure. "It provides management's framework for planning, directing, and controlling operations to achieve agency objectives. A good internal control environment requires that the agency's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting."

(b) The environment is also affected by the manner in which the agency delegates authority and responsibility throughout the organization. This delegation covers authority and responsibility for operating activities, reporting relationships, and authorization protocols.

(c) Information should be recorded and communicated to management and others within the entity who need it and in a form and within a timeframe that enables them to carry out their internal control and other responsibilities.

Recommendations:

1. FCC Order 04-163 was intended to publicly clarify the office responsible for all of FCC's financial activities, including those of the component entities. The Chairman, as the Chief Executive Officer of the FCC should assess the need and role of his office to participate in the day-to-day financial activities of the agency rather than the Managing Director, and determine if the order should be rescinded and replaced with one that fits the results of his assessment, clarifying any future confusion and strengthening the control environment by aligning the roles, functions with the appropriate activities.

2. To clarify and strengthen Office of the Chairman-delegated roles, the Chairman should issue explicit and agency-wide (or publicly available) delegations of authority for individuals instructed, or asked to represent his office, even if that delegation is one of a temporary nature.

3. Because financial reporting is mandated and must be complete at a time-definite, management should ensure that it meets all delivery timeframes external and internal to ensure effective and efficient use of agency resources, and to achieve more positive results.

4. To protect the agency from compromising its requirement to support the independence of the Office of Inspector General, senior management, including OCM, should become acquainted with the Inspectors General Act, its purpose, and become more familiar with

the Inspector General's role and responsibilities to the agency, that is, if not already done so.

Management Comment:

Management concurs with the recommendations. While management does not agree with the description of all of the facts and findings, management agrees to assess the need to supervise the activities of the Office of Managing Director (OMD), ensure that delegations are appropriate, and that delivery timeframes are met. Management also agrees to support the independence of the Inspector General.

II. Component Entities' Financial Reporting Controls

GAO *Standards for Internal Control in the Federal Government* state, "Internal controls activities help ensure that management's directives are carried out. The control activities should be effective and efficient in accomplishing the agency's control objectives." Examples of control activities include proper execution of transactions and events, accurate and timely recording of transactions and events, and appropriate documentation of transactions and internal control. In addition, "Internal controls should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparison, reconciliation, and other actions people take in performing their duties."

OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*, which was updated in OMB Circular No. A-136, *Financial Reporting Requirements,* states "When the reporting entities of which these components are a part, issue consolidated or consolidating statements that included such components, generally accepted accounting principles (GAAP) for Federal entities shall be applied to these components."

FCC relies heavily on its reporting component entities' financial reporting controls and processes to obtain specific financial information on a monthly basis for external reporting and quarterly financial statement consolidating purposes. Our audit disclosed the following financial reporting weaknesses, which collectively resulted in material weakness:

A. Control Over Budgetary Transactions

FCC Order 03-232 required the administrators of USF and TRS to prepare financial statements consistent with generally accepted accounting principles for Federal entities and to account for the funds in accordance with United States Standard General Ledger (USSGL). This order became effective October 1, 2004. We identified the following two areas, policies and procedures, and recording activities, needing improvement:

Policies and Procedures

- Policies and procedures, that would provide consistency in treating different types of budgetary transactions, were either not complete or have not been finalized;

- Appropriate control procedures were not in place to perform monthly reconciliation of budgetary and proprietary accounts and to ensure identified variances were investigated and corrected timely and prior to submission of the financial information to FCC for consolidation; and

- Policies and procedures for following up on weaknesses noted in other reports, such as the SAS No. 70, *Reports on the Processing of Transactions by Service Organizations,* were not in place.

  Lack of policies and procedures for key activities could create confusion and misunderstanding resulting in transactions not being recorded promptly and properly, and subsequently affecting the reliability of financial information.

Recommendation:

5. Ensure that the financial policies and procedures are finalized and include, among others, monthly reconciliation of budgetary and proprietary accounts, consistent application of budgetary transactions, and follow-up procedures on weaknesses identified in reports issued by its service organizations.

Management Comment:

Management concurs with the recommendation. The FCC will continue to work with the administrator of the USF to ensure that policies and procedures are completed and finalized for: a) financial transactions used to account for budgetary transactions; b) performing monthly reconciliations of budgetary and proprietary accounts and to ensure identified variances are investigated and corrected timely, prior to submission of the financial information to the FCC for consolidation; and c) following up on weaknesses noted in audit reports.

Recording Activity

- The posting model for posting budgetary and investment transactions were not consistent with the USSGL.

- The component entities did not record year-end adjustments prepared by FCC which resulted in many auditing inquiries due to different beginning balances reported by the component entities and the prior year audited balances.

- Multiple amounts for a single Filer ID in Pre-Petition Bankruptcy were maintained in the USF accounts receivable sub ledger. As a result, the sub-ledger balances do not represent the actual accounts receivable amounts on an aggregate basis for each filer ID.

- The component entities did not record year-end adjustments prepared by FCC which resulted in many auditing inquiries due to different beginning balances reported by the component entities versus what should have been the same audited balances reported in the prior year.

- Inconsistent timing in recording USF receivables increases the risk of duplication, thereby overstating the receivables balance. This practice results in additional steps at reporting time to identify and correct duplicate entries.

- FCC prepared and identified all the adjusting entries posted to the TRS trial balance because the administrator did not have personnel with budgetary accounting experience.

- The USF administrator does not maintain an accounts payable (AP) subsidiary ledger for USF transactions. As of June 30, 2005, the recorded AP balance in the financial statements totaled $ 52.1 million.

Recommendations:

6. Ensure the component entities' full implementation of the USSGL posting model at the transaction level.

7. Design the Pre-Petition Bankruptcy accounts receivable sub ledger to report the net receivable amount from each Filer ID.

8. Finalize and consistently implement the FCC policies and procedures related to the reporting components' financial reporting, compilation, and review process to include review procedures that will assess and assure data integrity, completeness, existence, quality and reliability of the financial data.

9. Institute a methodology to record the correct receivable amount at the time of recognition instead of recording duplicate receivables and correcting the entry at a later time.

10. Develop a subsidiary ledger for USF account payable details to support the reported balances.

Management Comment:

Management concurs with the recommendations. The FCC will work with component entities to ensure that revised procedures and processes and other recommendations listed above are properly implemented to improve recording activity.

Recommendation:

11. Require the administrator of TRS to obtain an accountant with related experience to take responsibility for TRS accounts and compile consolidating TRS financial data into GAAP financial statements.

Management Comment:

Management concurs with the recommendation. The FCC will work with component entities to address this recommendation to ensure the financial accounts and data are compiled in compliance with GAAP financial statements.

B. Universal Service Fund Commitments

FCC management could not provide assurance on the accuracy and completeness of the fiscal year 2005 and 2004 combined statement of budgetary resources and the consolidated statement of financing due to inadequate internal control and incomplete verification of transactions related to the USF commitment letters. USF issues "commitment letters" to beneficiaries for two of its support mechanisms, initiating the accounting basis for recording budgetary obligations. The FCC was not able to apply adequate quality control reviews to ensure that obligation-related transactions were properly recorded and presented in the financial statements. The unaudited outstanding obligations related to commitment letters of $ 3.2 billion and $ 3.0 billion at September 30, 2005 and 2004 presented in the consolidated financial statements are material to the statements.

During the fiscal year 2005 audit, our attempt to audit the commitment letter transactions and activity could not be completed due to many deficiencies identified with the documentation and schedules provided, including significant variances between subsidiary and control balances. We were not able to apply audit procedures to the USF commitment transactions and balances for fiscal years 2005 and 2004.

Recommendations:

12. The USF administrator should establish written policies and procedures, and implement internal controls to ensure completeness, existence, and proper valuation of the commitment letter amounts.

13. To support future [audit] representations, the FCC in coordination with USF administrator should verify and validate commitment letter balances, activity, and transactions as of September 30, 2005, no later than the second quarter of fiscal year 2006 to determine if the balances are fairly materially stated in accordance with generally accepted accounting principles.

14. Establish a cross-bureau and cross-entity task force to address the USF commitment and obligations issue. The task force should be similar in scope and approach as the

Spectrum Auction Loan Servicing Activity task force that was used to address the material issues related to FCC spectrum auction loans.

Management Comment:

Management concurs with the recommendations. In July 2005, the FCC initiated a comprehensive review of the management, administration, and oversight of the USF. FCC is considering a range of options to address concerns raised by the GAO, the Inspector General, and others. In addition, management will consider additional steps to ensure that sufficient staff are working to address these issues.

C. Timeliness of Transaction Entry and Reconciliation

The USF administrator did not consistently record financial transactions timely. Transactions are captured on spreadsheets and recorded monthly or quarterly as adjustments to the general ledger. Also, reconciliation of the general ledger balances to the subsidiary ledger was not performed timely and schedules provided for audit contained significant errors. For example:

- The trial balance prepared for USF and provided to FCC for consolidation did not have the correct budgetary account balances. This resulted in FCC making adjustments to the data for use in consolidation. Aggregate adjustments made to the USF financial statement as of June 30, 2005 totaled approximately $ 994 million.

- The USF revenue roll-forward schedules showed a difference of $ 81 million when compared to the financial statement balances, resulting in the revision of the supporting schedules.

- Monthly Statement of Accounts sent to three carriers in June 2005 were incorrect. During the audit, we noted that the combined subsidiary ledger balances of the three carriers totaled $ 43 million, while the balances for each respective statement were zero.

Recommendations:

15. Implement procedures to ensure that the reporting components' unadjusted balances are reconciled and supported with appropriate roll-forward analysis.

16. Ensure that the reporting components received and understood the year-end adjusting entries which should be promptly recorded on their books.

17. Improve quality control reviews of audit schedules to ensure material differences are identified and resolved timely.

Management Comment:

Management concurs with the recommendations. The FCC will work with the reporting components to ensure that the unadjusted balances are reconciled and supported with appropriate roll-forward analysis, that the reporting components received and understood the year-end adjusting entries and that such entries are properly recorded on their books of account, and to improve the quality control reviews of audit schedules to ensure material differences are identified and resolved in a timely manner. The FCC has made significant progress with the USF administrator over the past fiscal year concerning financial reporting capabilities. During fiscal year 2006, FCC will ensure that year-end adjusting entries are promptly recorded on the administrator's books and will improve quality control review procedures over audit schedules. The FCC will continue its efforts to work with the administrator to improve its financial reporting capabilities, including timely recording of transactions and reconciliations between the general ledger and subsidiary ledgers.

D. Control Over USF Investment Transactions

USF investment activities with several banks are recorded by the USF administrator via a journal entry based on the monthly bank report of the status of the investments. We found that the reports received from the bank do not receive adequate review prior to recording the transactions on the reports. Moreover, during the audit we were not provided with satisfactory explanation for the basis of the calculation of the discount portion on the investment. Also, although not material in amount, cash balances were misclassified as investments in the interim financial statement presentation.

Recommendations:

18. Review the reasonableness and accuracy of the bank investment reports before recording them in the books and submitting the financial information to FCC.

19. Modify existing template used for calculating unamortized discounts and premiums to ensure correctness of the calculations.

20. Ensure all accounts are properly classified in the financial statements.

Management Comment:

Management concurs with the recommendations. The FCC will work with the USF administrator to: a) implement new procedures to re-calculate and validate the data presented in the individual bank statement reports before the data is recorded in the general ledger; b) ensure proper calculation of the unamortized discounts and premiums; and c) ensure proper classification of accounts in the financial statements.

E. Controls Over Compliance with Laws and Regulations

The report on *Evaluation of Federal Financial Requirement* prepared by an independent accountant confirmed applicability of certain federal laws and regulations to USF relating to financial management and identified several non-compliances with such laws and regulations. The non-compliances consistent with the results of our audit require appropriate corrective actions.

Recommendation:

21. Implement appropriate corrective action plan to address the recommendations contained in the report.

Management Comment:

Management concurs with the recommendation. The FCC will work with the USF administrator over the next fiscal year to implement a timely corrective action plan to correct all non-compliance identified by the independent accountant.

III. Auction Transactions (Modified Repeat Condition)

A. Auction Revenue and Receivables

FCC did not have a directive to address the flow of communication and documentation between Wireless Telecommunications Bureau (WTB) and the Financial Operations Center (FOC) when an auction transaction occurs. WTB is the primary source of substantial activities on auctions and licensing that trigger accounting transactions to be acted upon by the FOC. These activities include: loan information, licensing decisions, assignments and assumptions, results of an auction, winning bid, bidding credits, upfront payments, first and second down payments, negotiations, waivers, penalties, auction rules and regulations, and many more. When auctions and licensing activities have a financial impact, the operating procedure is for WTB to notify and provide FOC with the necessary information and supporting documentation

Our audit identified instances where FCC did not record auction revenue originating from auction activities when a *Prepared to Grant Public Notice* and/or *Grant Public Notice* were issued by WTB. Further, we noted that no procedures have been issued by WTB to ensure that appropriate communication is forwarded to FOC when an auction event occurs. Although FOC has incorporated a written procedure whereby they ensure that all financial related activities of auction and licensing operations are timely recorded, it was not finalized until August 31, 2005.

Also, license information from the original auction to subsequent re-auction is not maintained in a database or system that could facilitate tracking the details of each license. Rather the information is maintained in multiple spreadsheets and other supporting documents from various sources. Because auctioning licenses is a significant FCC operation, it is essential that information about the current status of a license and its history be easily accessible, providing bureaus and offices with the ability to update and share both financial and non-financial information.

Recommendations:

22. Issue a directive for WTB to ensure that all auction and licensing activities with financial impact are reported to FOC for timely and proper recording.

23. Establish a database for WTB that is capable of being linked or interfaced with the core financial system to create an audit trail and record of delinquent winning bidders whose licenses were cancelled and then re-auctioned, including the amounts collected or received from the re-auction. Until this database becomes operational, FCC should create and maintain a comprehensive schedule that will provide this information. The comprehensive schedule should be periodically reviewed and reconciled.

Management Comment:

Management concurs with the recommendations. The FCC will coordinate efforts between bureaus and offices that impact the auctions and licensing activities. FCC will review the recommendations, update any existing procedures to improve the flow of information, and, where feasible and possible, make modifications to systems.

B. Spreadsheet Subsidiary Ledger System (Modified Repeat Condition)

In fiscal year 2005, FCC management decided not to implement the Revenue Accounting and Management Information System (RAMIS) Auction Accounting module because the module was deemed unusable and unreliable. The spreadsheet subsidiary ledger system therefore continued to support auctions activity in fiscal year 2005 and will remain in place until a new core financial system is selected and implemented. These spreadsheets support the flow of transactions throughout the year.

As noted in prior years, licensing events, such as the issuance of a *Prepared to Grant Public Notice and/or Grant Public Notice*, were not recorded in the general ledger when the accounting event occurred; instead, these accounting events were journalized at the end of every month.

The inherent risks and limitations associated with a spreadsheet-based application are as follows:

- Substantial manual intervention, thereby increasing the risks of human errors;
- Formulas can be changed easily, affecting the flow through the rest of the spreadsheets;

- Difficulty in tracking changes made to spreadsheets, including formula changes;
- Difficulty in verifying change controls and that error correction changes were made;
- Unique transactions are difficult to incorporate;
- Difficulty in performing automatic checks and balances on the transactions in the spreadsheets;
- Delay in recording transactions in the general ledger; and
- Increase in the use of journal vouchers as a means of posting transactions to the general ledger.

Recommendation:

24. Implement change control procedures over spreadsheet applications to ensure that changes are reviewed and authorized, and formula cells are protected.

Management Comment:

Management concurs with the recommendation. Since the auctions module was not implemented in fiscal year 2005, and has been rescheduled for fiscal year 2006, the FCC will continue to limit the spreadsheet access to a select few people and review the control procedures to limit the possibility of errors until the automated system is in place.

IV. FCC's Contingency Plans (Modified Repeat Condition)

Losing the capability to process and protect information maintained on FCC's computer systems can significantly impact FCC's ability to accomplish its mission. The purpose of service continuity controls is to ensure that, when unexpected events occur, critical operations continue without interruption or are promptly resumed.

The Chief Information Officer and his staff are in the process of developing a comprehensive disaster recovery plan to support the recovery of information technology (IT) systems if an incident disrupts services. In addition, the FCC has developed significant elements of a full continuity of operations plan (COOP); however there are still some issues to be resolved such as: contingency plans for bureau and office major applications, and a contingency plan for certain FCC system assets.

Recommendations:

25. Complete the development and implementation of a comprehensive contingency plan that integrates the individual plans of FCC's data centers, networks, and telecommunications facilities.

26. Ensure that the COOP includes the recovery of FCC's major applications in accordance with recovery times deemed critical to mission and operations of the bureaus and offices.

27. Develop a contingency plan for certain FCC system assets.

Management Comment:

Management concurs with the recommendations. The FCC has developed and implemented agency-wide continuity of operations plans and procedures. Based on the experience of Hurricane Katrina and other natural disasters, as well as the lessons learned from training exercises during fiscal year 2005, the FCC will revise and update its emergency response procedures, including those pertaining to its COOP.

REPORTABLE CONDITIONS

V. Financial Reporting (Repeat Condition)

FCC's financial reporting process continues to improve when compared with prior years. However, in fiscal year 2005, the following conditions continue to exist:

A. Integrated Financial Management Systems (Repeat Condition)

OMB Circular No. A-127, *Financial Management Systems,* requires that each agency establish and maintain a single integrated financial management system. Without a single integrated financial management system to ensure timely and accurate financial data, poor policy decisions may occur due to inaccurate or untimely information. Managers are less likely to be able to report accurately to the President, Congress, and the public on Government operations in a timely manner. In addition, scarce resources are more likely to be directed toward the collection of information rather than to delivery of the intended programs.

- **FCC's Core Financial System**
  FCC utilizes Federal Financial System (FFS) as its general ledger and core financial management system. Software applications such as property management system, license databases, and various spreadsheets [for International Telecommunication Services (ITS) transactions and auction transactions] were independent systems, not integrated with the FFS.

  In addition, FCC's consolidated financial statements were compiled and prepared from four separate core financial systems administered by four separate reporting components. At financial statement preparation time, FCC goes through the exercise of compiling financial data in separate spreadsheets in a complex and time-consuming process. The financial data included in the spreadsheets is consolidated for financial statement preparation.

- **Contractor Loan Servicing Database**
  The design of FCC's contractor loan servicing database did not include certain functional requirements for direct loan systems as required by the Joint Financial Management Improvement Program (JFMIP). Therefore, the loan-servicing database is not fully JFMIP compliant.

- **USF Standard General Ledger (Modified Repeat Condition)**
  During fiscal year 2005, USF is accounted for with a non government general ledger system. Our audit disclosed that the account numbers did not fully comply with the USSGL accounts structure. During the compilation of the interim financial statements as of June 30, 2005, FCC had to map USF accounts numbers to specified USSGL accounts. Further the investment activities are not integrated into the general ledger system. Entries are posted manually every month.

Recommendation:

28. Ensure the integration of the overall financial management systems. These integrations should include all receivable transactions to be recorded in RAMIS, the fee billing system, the auction subsidiary systems, and various stand-alone systems such as the property management system, databases, spreadsheets and reporting components' financial reporting.

Management Comment:

Management concurs with the recommendations. The FCC Core Financial System Requirements Analysis was completed in December 2004. The analysis reflected that the FCC would be best served with a new enterprise system. The FCC has begun the procurement cycle for a new core financial system and plans to award the contract in 2006 and "go live" with the new system in fiscal year 2007 January (pending funding availability). The anticipated system would include all the applicable subsidiary systems, in addition to the components.

Recommendation:

29. Authorize the loan service provider to implement the necessary functional requirements to meet JFMIP's loan servicing system standards.

Management Comment:

Management concurs with the recommendation. The FCC continues to work with the loan service provider to enhance their system to incorporate any applicable JFMIP standards which would be applicable to the FCC and cost efficient.

Recommendation:

30. Ensure that the USF general ledger system is in full compliance with the Financial Management System requirements and the USSGL.

Management Comment:

Management concurs with the recommendation. The FCC continues to work with the reporting components on the implementation of USSGL. Currently the systems utilized by all the components are not JFMIP compliant, however, they have modified their coding structure to incorporate USSGL. On a quarterly basis, the FCC discusses with the entities any corrective action necessary to further implement USSGL until compliant systems are implemented.

B. Federal Financial System Setup and Posting Model Definitions (Repeat Condition)

In fiscal year 2005, FCC continued to use FFS system setup and posting model definitions that were not completely updated. While the incorrect posting models were now limited to auction and ITS transactions, the outdated definitions continued to require corrections to the transaction postings through monthly journal vouchers. The incorrect posting model definitions resulted in non-compliance with the transaction posting models consistent with USSGL guidance and policies when recording and classifying some transactions. This system deficiency may continue to impair the quality and reliability of the auction financial management information.

Recommendation:

31. Perform a periodic or quarterly update of FFS system setup and posting model definitions to ensure timely correction of outdated models and compliance with the latest transaction posting models consistent with USSGL guidance and policies for recording and classifying transactions.

Management Comment:

Management concurs with the recommendation. The FCC completed a review for fiscal year 2005 and has finalized the USSGL changes which will be made during the first quarter of fiscal year 2006. Reviews will be performed yearly to ensure compliance with USSGL.

C. Financial Statement and Federal Agencies' Centralized Trial-Balance System II (FACTS II) Differences (Repeat Condition)

The FACTS II is a computer program for agencies to submit mostly budgetary information required for the *Report on Budget Execution and Budgetary Resources*, the *Year-end Closing Statement*, and much of the data that will appear in the prior year column of the *Program and Financing Schedule* of the President's budget.

In fiscal year 2005, as in prior years, our audit identified significant differences between third quarter FACTS II account balances and the balances reported on the FCC's third quarter financial statements.

GAO's *Standards for Internal Control in the Federal Government* states that, "Internal control should provide reasonable assurance that the objectives of the agency are being achieved in the reliability of financial reporting, including reports on budget execution, financial statements and other reports for internal or external use."

Recommendation:

32. Ensure timely communications of adjusting entries and reconciliations between all groups within FCC with financial reporting responsibilities.

Management Comment:

Management concurs with the recommendation. Procedures will be modified to ensure that reconciliations between the groups are performed.

VI. Cost Accounting (Modified Repeat Condition)

A. Minimum Level of Cost Accounting (Modified Repeat Condition)

FCC has defined its responsibility segments for financial reporting purposes, but has not determined the outputs associated with its responsibility segments, nor has it calculated the related output costs for its responsibility segments as part of its cost allocation methodology. The Budget Execution and Management System (BEAMS), the system FCC is currently using for cost accounting, does not provide the minimum level of cost reporting identified in Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*.

SFFAS No. 4 requires a minimum level for cost accounting to provide basic information to accomplish the many objectives associated with planning, decision-making, and reporting. This minimum level includes, among others, measuring full cost of outputs, providing information for performance measurement, and providing useful information, and accommodating any or management's special cost information needs that may arise due to unusual or special situations or circumstances.

Recommendations:

33. Enhance BEAMS functionality to satisfy the minimum level of cost accounting required in a managerial cost accounting system by SFFAS No. 4.

34. Define outputs produced by the responsibility segments and incorporate the definition into the Statement of Net Costs allocation methodology.

Management Comment:

Management concurs with the recommendations. FCC has defined its responsibility segments for financial reporting purposes and accumulates costs by responsibility segment. In addition the FCC defined and accumulates outputs, assigns costs to outputs (both directly and indirectly) based on its definition of an output, and calculates the cost per unit of each type of output for items defined as units, as part of its cost allocation methodology. Finally, the performance measures information is directly associated with program cost of each responsibility segment. Management continues to refine both the process and the agency's definition of an output.

B. Matching Revenue to Cost (Repeat Condition)

FCC continued to allocate earned revenues in the same proportion as allocated costs instead of matching related revenues to costs. SFFAS No.7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, states, "Related revenue should be matched with the cost."

Recommendation:

35. Review the propriety of the costing methodology and the matching of earned revenue against costs. Include a review of different program activities that generate revenue and apply the revenue to those activities that produce the earned revenue.

Management Comment:

Management concurs with the recommendation. The FCC is aware of the requirement to assign revenues to their related costs and will address this issue as a possible enhancement to the cost accounting system. The FCC will assess the priority of this requirement in relation to other systems requirements in fiscal year 2006 to determine future actions.

VII. Reconciliation of Intragovernmental Transaction Balances

FCC is required to reconcile transactions and balances with other Federal entities every quarter in accordance with OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements* and the Department of the Treasury's *Federal Intragovernmental Transaction Accounting and Policies Guide.* Although OMB guidance did not specify the dollar threshold for performing reconciliation, FCC reconciles only the intragovernmental transactions and balances using the Treasury materiality amount of $ 10 million. As a result, using this threshold eliminated most of the transactions that would have been within FCC's materiality and scope for reconciliation.

Recommendation:

36. Perform quarterly reconciliation of intragovernmental transactions and balances with other Federal agencies. The reconciliation process should be completed quarterly and include procedures to resolve any differences identified in a timely manner. The procedure should also include confirming amounts with trading partners and meeting trading partners to resolve differences identified.

Management Comment:

Management concurs with the recommendation. The majority of the intragovernmental transactions are balanced and reconciled with other Federal agencies. However, there remain some minor issues to resolve between other Federal agencies required to report who do not provide adequate, timely or accurate information. FCC will work with the Department of the Treasury and other Federal agencies to address and resolve these issues.

VIII. Payroll and Personnel Activities (Modified Repeat Condition)

A. Payroll Activities

Weaknesses identified in the prior year audits on payroll activities have not been corrected.

- Leave error reports received from the National Finance Center (NFC), showing differences between NFC's leave record for each employee and FCC's leave and earnings (LES) statements were not reconciled. Although management performed several audits reconciling the LES reports and NFC system, our audit continues to identify multiple instances where significant differences were not reconciled for all categories of leave balances such as, annual leave, sick leave, compensatory time, and credit hour categories.

- Invalid project codes identified in FFS remain uncorrected for a long period of time. The existing procedures are to facilitate payment of salaries and wages rather than correct invalid project codes. Financial Systems Operation Group (FSOG) generates an invalid project code report from FFS and posts corrections to a single project code, E0200, regardless of what the employee should have charged time against.

Recommendation:

37. Increase the NFC and FCC system reconciliation procedures to include all leave categories.

Management Comment:

Management concurs with the recommendation. NFC does not provide the functionality to provide all leave categories on the Leave and Error Report. Employees are reminded periodically to review their leave and earnings statement each pay period to ensure that the leave reported on their statement matches their Time and Attendance (T&A) Report. Training has been given on conducting T&A audits and the bureaus and offices are responsible for reviewing and reconciling any discrepancies. In addition, the error reports and progress by bureaus and offices is often a discussion item at the monthly Assistant Bureau Chief for Management (ABC) meetings that are hosted by the Human Resource Director. The FCC will continue to work with the appropriate staff to ensure reconciliation is completed in a timely manner.

Recommendation:

38. Ensure that timekeepers reconcile time and attendance report errors generated from the FCC's desktop payroll reconciliation system.

Management Comment:

Management concurs with the recommendation. The FCC will continue to work with appropriate staff to ensure the Leave and Error Report is reconciled. This bi-weekly report is shared with each bureau and office ABC for appropriate action. Each bureau and office has received training on conducting T&A audits and they are responsible for reviewing and reconciling any discrepancies. In addition, Human Resource Management (HRM) Payroll Specialists are continuing to work with timekeepers to resolve discrepancies each pay period.

Timekeepers, employees and supervisors are aware of the discrepancies between leave balances on the Earnings and Leave Statement (ELS) and the timecards. Due to timekeepers making corrections and NFC not being able to process all corrections within the same pay period, there will continue to be a number of leave discrepancies on the report.

Notices are also sent out periodically to timekeepers, employees and supervisors of their responsibility of reviewing the accuracy of timecards. HRM Payroll and Benefits Service Center has contacted the NFC service office to discuss how they can better ensure that the T&A corrections are processed timely.

Recommendation:

39. Enhance the LES system capabilities to reject incorrect project codes from being entered in the system in the first place.

Management Comment:

Management concurs with the recommendation. The NFC LES system does not reject incorrect project codes. Project codes are entered in the Time and Attendance System. In fiscal year 2006, NFC will roll out StarWeb 5.0, which will allow timekeepers to enter valid project codes only; invalid project codes will be rejected. FCC plans to use StarWeb 5.0 when available in 2006.

Recommendations:

40. Issue guidance to establish timeframes for employees to correct invalid project code errors.

41. Provide FCC contact person at NFC a listing of uncorrected project codes monthly.

Management Comment:

Management concurs with the recommendations. The FCC negotiated with NFC to have NFC correct invalid project codes; however, Hurricane Katrina delayed the correction of the codes. Consequently, NFC's priorities have shifted, to the restoration of basic services, so the project codes were not corrected, and no timeframe for correction has been provided for the future.

Timekeepers have been notified to stress the need for accurate coding and timely correction of errors. FCC will continue to work with the bureaus and offices to ensure invalid project codes are corrected on a timely basis.

B. Personnel Activities

Several *Official Personnel Folders* (OPF) examined did not contain certain personnel documents that should have been included, or had outdated documents in the folder.

Recommendation:

42. Ensure documentation related to personnel actions or employee benefits are promptly updated and filed in the OPF.

Management Comment:

Management concurs with the recommendation. The FCC recognizes the importance of accurate record keeping and this will be reinforced with staff responsible for handling and filing these forms so the information can be filed in a timely and accurate manner.

In addition, Office of Personnel Management (OPM) is strongly encouraging agencies to move away from paper OPFs and paper personnel documents. The time intensive nature of paper filing, coupled with the ongoing issue experienced by all agencies to have accurate paper records has resulted in OPM initiating and endorsing the sole use of electronic OPFs and electronic personnel documentation. OPM's system, Enterprise Human Resources Integration (EHRI), will replace the current OPF with an electronic employee record for all Executive Branch employees, resulting in a comprehensive electronic personnel data repository covering the entire life cycle of Federal employment.

FCC requested funding for EHRI in the fiscal year 2006 and 2007 budgets. We were unsuccessful in fiscal year 2006 to get the funding. We believe the ideal recommended action should be the implementation of EHRI and the subsequent electronic OPF.

- Network accounts of separated employees were not disabled on a timely basis. Our examination of the separated employee's report showing dates when their respective network accounts were disabled indicate that it took between two to seven weeks to complete disabling the accounts of six separated employees.

Recommendation:

43. Implement procedures to ensure that network accounts of separating employees are terminated at the effective date of separation.

Management Comment:

Management concurs with the recommendation. The FCC has processes in place that initiate actions to be taken upon notification of personnel departure when the "SignOut" group is used in a timely manner. Minor differences in the timely use of the "SignOut" group between the different bureaus and offices contribute to delays in disabling/removing accounts. The FCC will reinforce the proper use of the "SignOut" group through current user security awareness and training mediums being used by the FCC.

IX. Debt Collection Improvement Act (Repeat Condition)

The Debt Collection Improvement Act of 1996 (DCIA) requires agencies to: (1) notify the Department of the Treasury of all debt delinquent by more than 180 days for offset, and (2) refer to the Department of the Treasury, with some exclusions, all debts delinquent more than 180 days for cross-servicing debt collection.

Our review of the Treasury Report on Receivables (TROR) as of June 30, 2005, disclosed that no amounts of administrative receivables had been referred to Treasury for offset, and only $ 15.8 million of eligible administrative receivables out of a total of $ 74.5 million had been referred for cross-servicing. FCC's condition of limited referrals for cross servicing has been noted in prior year audit reports and continues to exist.

Our audit also noted that management had not implemented controls to ensure that debts that were delinquent were assessed interest, penalties, or administrative fees as allowed by the DCIA and FCC's rules, 47 CFR Part 1.1940 *Interest, Penalties, Administrative Costs and Other Sanctions Assessment.*

Further, existing controls did not detect a difference of $ 33 million between the amount reported as ending balance of $ 1.412 billion on the TROR and the summary supporting schedule of $ 1.378 billion for the quarter ending as of June 30, 2005. This error was only identified as a result of our audit.

Recommendations:

44. Refer all eligible delinquent debt more than 180 days old to the Department of the Treasury for offset or timely cross servicing.

45. Perform a review of the delinquency debt letter procedures to ensure that all delinquent debtors receive dunning letters and interest, penalties, and administrative fees are assessed in conjunction with the submission of the letters to the debtors.

46. Strengthen quality controls surrounding preparation and submission of reports to external government agencies, including independent review and reconciliation.

Management Comment:

Management concurs with the recommendations. The FCC will revise and update its internal policies and procedures (including its quality control procedures) to ensure all eligible delinquent debt more than 180 days old is referred to the Department of the Treasury in a timely manner. During fiscal year 2006, the FCC plans to formulate a Debt Collection Policy and Procedures manual which will consolidate the requirements under the Debt Collection Improvement Act of 1996 for all debt at the FCC. Also, in the review of a new automated financial accounting system special attention will be given to ensure system capabilities are present to comply with the requirements of DCIA.

X. Electronic Data Processing (EDP) Controls (Modified Repeat Condition)

A. OMB Circular No. A-130 Requirement for a Comprehensive Security Plan (Modified Repeat Condition)

OMB Circular No. A-130, *Management of Federal Information Resources*, Appendix III, *Security of Federal Automated Information Resources*, as revised in November 2000, established a minimum set of controls for Federal agencies, including risk assessments, assigning responsibility for security, security planning, periodic review of security controls, and management authorization of systems to process information.

Deficiencies in security controls that significantly impact FCC's ability to protect its sensitive or critical resources include:

- FCC directive 1131.1 "Information Security Manual" has expired. FCC has not issued a new directive to replace the expired information security directive;

- FCC has not determined whether the contractor loan servicing database is a major application. Given FCC identified RAMIS and the loan servicing spreadsheets as major applications, it can be reasonably assumed that the contractor loan servicing database which replaced the other processes should similarly be considered as a major application now that it has become the loan servicing system of record;

- FCC has not established policies and procedures to ensure that all sensitive data to and from its contractors are protected; remains private and that critical business transactions remain trusted and secure;

- We noted that one of FCC's major financial applications had control weaknesses associated with the enforcement of the "principle of least privilege", which allowed some users inappropriate access to "override" privileges;

- FCC has not enforced a program for the periodic recertification of users' access to its major applications; and

- FCC's re-certification of the contractor loan servicing system was incomplete and did not uncover certain weaknesses that the contractor knew about.

Recommendation:

47. Issue a new directive to replace the expired information security directive 1131.1

Management Comment:

Management concurs with the recommendation. The FCC has generated a document and changes are being incorporated into the Information Security Manual. Once approved, by external parties and returned to FCC, the document will be re-routed to management for review and approval. The expected completion date is by the close of the first quarter fiscal year 2006.

Recommendation:

48. Make a determination on whether the contractor loan servicing system application should be a major application given that FCC identified RAMIS and the loan servicing spread sheets as major applications.

Management Comment:

Management concurs with the recommendation. The FCC Computer Security Officer (CSO) assists FCC system owners and management in classifying major applications based on OMB policies and National Institute of Standards and Technology (NIST) standards. We noted that the loan servicing system became a system of record in fiscal year 2004 and has been slated for a review of its status to determine its status as either a minor or major application. In addition, during fiscal year 2005, NIST provided additional guidance in evaluating and categorizing Federal systems. Based on the new guidance, the CSO has scheduled a review in fiscal year 2006 of the classification of the loan servicing system along with other FCC systems.

Recommendation:

49. Ensure that transmission of all sensitive data to and from FCC's contractors and business partners is protected and encrypted.

Management Comment:

Management concurs with the recommendation. All loan data and other financial management information should be encrypted during transmission. New encryption software has been purchased by the FCC and is currently being tested. When testing is completed, the new encryption software will be distributed to the loan service provider for implementation in the first quarter of fiscal year 2006.

Recommendation:

50. Ensure that the "principle of least privilege" is adequately enforced across all major applications and general support systems.

Management Comment:

Management concurs with the recommendation. Recertification will be accomplished in fiscal year 2006. This effort will concentrate on updating user files with proper access approval forms and related access documentation.

Recommendation:

51. Ensure that periodic recertification of users' access to its major applications is adequately enforced and operating effectively to ensure the "principle of least privilege" is in place and that incompatible duties are properly segregated.

Management Comment:

Management concurs with the recommendation. During fiscal year 2006, the FCC will be re-certifying FFS user access. User role and access needs will be reviewed and modified as needed during this re-certification process, and re-evaluating User ID Groups for modification and/or deletion.

Recommendation:

52. Ensure that the recertification process for all systems (including contractors) is thorough and complete.

Management Comment:

Management concurs with the recommendation. The FCC will ensure that all systems will be included in the recertification process.

B. RAMIS Application

FCC's OIG engaged a firm to review the RAMIS application's EDP controls. The report identified several weaknesses in internal EDP controls that collectively are considered a reportable condition. The weaknesses are explained in more detail in a separate report dated November 24, 2003, and titled, *Report on Audit of the Revenue Accounting and Management Information System (RAMIS)* released by the OIG. FCC has closed 19 out of 22 weaknesses identified in the report.

Recommendation:

53. Complete the implementation of recommendations made in the report on RAMIS.

Management Comment:

Management concurs with the recommendation. The FCC continues to implement the recommendation. Efforts are ongoing to complete the 3 remaining recommendations.

C. Security Training and Education (Modified Repeat Condition)

For our fiscal year 2005 audit of FCC, we were not provided with a total number of individuals who have signed the *Rules of Behavior Tracking Sheet*. Signatures document that the FCC employee has read and agrees to follow the rules for appropriate use of FCC network system.

We also obtained a tracking sheet for key IT staff and the type and date of the security training they received. This sheet shows that many of the staff received specialized training to assist them in their job task. However, there are still many employees who have not received training to support their job's roles and responsibilities.

Recommendations:

54. Require that upon an acceptance of an FCC position, the new employee receive a packet with IT security training courses and dates, and a copy of FCC's *Rules of Behavior*.

55. Ensure and require that on the first day of work each employee reads and signs the *Rules of Behavior* as part of the orientation process.

56. Require each employee to accomplish a certain amount of security training per year to continue in his or her position.

Management Comment:

Management concurs with the recommendations. FCC's CSO currently provides the FCC *Rules of Behavior* during the new employee computer security orientation briefings and the other security related events. The CSO continues to obtain signed forms during these sessions. The CSO is working with ITC staff to include the *Rules of Behavior* Form as part of the new employee orientation package and emphasize the FCC requirement for signing the form. The Computer Security Program (CSP) has announced to the Key IT Staff the availability of online specialized training related to specific FCC position roles and responsibilities. CSP is tracking the completion of online courses by the Key IT Staff. CSO is in the process of developing a specialized newsletter geared toward the continued security development of Key IT Staff. Tracking both issues are an ongoing effort by CSP staff.

D. Employee Duties and Position Risk Designation (Modified Repeat Condition)

FCC has not provided the *Personnel and Security Suitability Manual* for the fiscal year 2005 audit. Although an extension was requested to have the manual approved for our review, no documentation was provided during audit field work. FCC has also determined that individual position reviews will only be done if funds are available to devote resources to the task. FCC is not in compliance with OMB Circular No. A-130, which requires the screening of individuals who are authorized to bypass significant technical and operational security controls of the system commensurate with the risk and magnitude of harm they could cause.

Recommendations:

57. Review and approve the *Personnel and Security Suitability Manual*.

58. Prioritize individual position reviews and make the necessary funds available to perform the task.

Management Comment:

Management concurs with the recommendations. Additional external coordination was required for the Personnel Security Manual (PSM). FCC completed coordination of the PSM for personnel security clearance concerns. The PSM draft is under a final internal review and will be forwarded to management for review and approval.

E. OMB Circular No A-130 Requirements for USF (Modified Repeat Condition)

USF administrator has not certified and accredited its major financial applications and general support systems to ensure that controls planned and placed in operation are operating as intended in accordance with OMB Circular No. A-130.

Recommendation:

59. USF administrator should complete the certification and accreditation of its major applications and general support systems.

Management Comment:

Management concurs with the recommendations. The FCC will continue to work with the USF administrator to ensure that it completes the certification and accreditation of its major applications and general support systems in accordance with OMB Circular No A-130.

F. USF Password Controls (Modified Repeat Condition)

The USF administrator contracts its data entry services to an outside company (contractor) to support its service provider. The contractor users are granted access to the service provider's internal website. The service provider's security administrator sets up the contractor employee's user ID and password. The passwords for the contractor users are defined by the service provider and do not have expiration date.

The security provided by a password depends on its composition, its length, and its protection from disclosure and substitution. The risk associated with an undetected compromise of a password can be minimized by frequent change. If a password has been compromised and if a new password is created that is totally independent of the old password, then the continued risk associated with the old password is reduced to zero. Thus, passwords should be changed on a periodic basis and must be changed whenever a compromise is suspected or confirmed.

Recommendation:

60. Strengthen password controls in accordance with USF administrator's password policy.

Management Comment:

Management concurs with the recommendations. The FCC will work with the USF administrator to ensure that password controls are strengthened to comply with USF administrator's password policies.

XI. Federal Manager's Financial Integrity Act (31 U.S.C. 3512) Compliance and

As required by OMB Bulletin No. 01-02, we compared the material weaknesses and material non-conformances in the FMFIA report included in FCC's fiscal year 2005 Performance and Accountability Report (PAR) to our report on internal control dated November 1, 2005. Material weaknesses relating to the control environment and USF commitment letters were not disclosed in the FMFIA report.

We do not believe that failure to report this material weakness constitutes a separate reportable condition or material weakness because different criteria are used in determining material weaknesses for both reports, and management has reported some of the material weaknesses. However, FCC did not take timely and effective actions to correct material internal control deficiencies identified in prior years' *Independent Auditor's Report on Internal Control*. Section IV of the OMB Circular No. A-123, *Management Accountability and Control* (Revised June 21, 1995), states, "…management has a responsibility to complete action, in a timely manner, on audit recommendations on which agreement with the IG has been reached."

Management Comment:

Management submitted its draft PAR on October 21, 2005. The PAR included updates to material weaknesses and reportable conditions identified in prior year FMFIA reports. Because the complete draft auditor's internal control report was not received prior to October 21, 2005, any new material weaknesses or reportable conditions could not be included in the fiscal year 2005 PAR. Those new findings will be incorporated in next year's FMFIA input.

STATUS OF PRIOR YEAR COMMENTS

As required by *Government Auditing Standards* and OMB Bulletin No. 01-02, as amended, we have reviewed the status of FCC's corrective actions with respect to the findings and recommendations from the previous year's report on internal controls. For those items not addressed in various sections of our *Independent Auditor's Report on Internal Control*, summarized above, the following discusses the current status of resolutions for matters raised:

- **Condition – Cost Logic –** In fiscal year 2004, FCC implemented BEAMS to allocate cost and revenue to the respective goals reported on the Consolidated Statement of Net Cost. We identified that the new cost system's allocation logic for costs recorded in USSGL 6310 and USSGL 6720, amounting to $ 343 million and $ 3 million, respectively were incorrect.

  In fiscal year 2005, FCC corrected the program allocation logic impacting the error identified in prior year audit. Our review of the allocation entries as of June 30, 2005 showed that USSGL 6310 and 6720 were appropriately no longer allocated. Therefore we have removed this reportable condition in fiscal year 2005.

- **Condition – Collateral for Deposits Held Outside of Treasury –** In fiscal year 2004, FCC's component entities did not have contracts with financial institutions that require collateral when funds are temporarily placed on deposit account. In fiscal year 2005, the USF administrator entered into a security agreement with one of its five financial institutions (the largest in terms of cash and investments) requiring the financial institution to collateralize deposits in excess of the $ 100,000 guaranteed by the Federal Insurance Deposit Fund. Although the agreement was only with one of the five financial institutions, we demoted the weakness from a reportable condition to a management letter comment based on the fact that two of the financial institutions with larger investments do not receive deposits from the public.

- **Condition - OMB Circular Nos. A-127 and A-130 Reviews** – FCC has identified its major financial applications and general support systems, and established a timetable for meeting the requirements of OMB Circular Nos. A-127 and A-130 review of these applications. Although FCC had begun conducting some OMB Circular Nos. A-127 and A-130 reviews in fiscal year 2002, not all identified systems have been reviewed. FCC has completed the OMB Circular Nos.A-127 and A-130 review of all its major applications and general support systems. Therefore, we have excluded this reportable condition in fiscal year 2005.

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In addition to the material weaknesses and reportable conditions described above, we noted certain matters involving internal control and its operation that we reported to the management of FCC in a separate letter dated November 1, 2005.

This report is intended solely for the information and use of the management of FCC, FCC Office of Inspector General, OMB, the Government Accountability Office and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Calverton, Maryland
November 1, 2005

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Compliance and Other Matters

To the Inspector General of the
Federal Communications Commission

We were engaged to audit the consolidated balance sheets of the Federal Communications Commission (FCC) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, financing, custodial activity and combined statements of budgetary resources for the years then ended (herein collectively referred to as the financial statements) and have issued our report thereon dated November 1, 2005. In that report, we disclaimed our opinion on FCC's financial statements because we were unable to apply all necessary auditing procedures to conduct an audit in accordance with the auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* (GAS) and Office of Management and Budget (OMB) Bulletin No. 01-02*, Audit Requirements for Federal Financial Statements,* as amended. The chairman of the FCC (head of the agency) would not sign the management representation letter. In addition, we requested, but were unable to interview the chairman regarding his knowledge, awareness and understanding of fraud and fraud risks of the organization.

The management of FCC is responsible for complying with laws and regulations applicable to FCC. As part of obtaining reasonable assurance about whether FCC's financial statements are free of material misstatements, we performed tests of FCC's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 01-02, including the requirements referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA). We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to FCC. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations described in the preceding paragraph, exclusive of FFMIA, disclosed instances of noncompliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 01-02, which are described below.

Chief Financial Officers Act of 1990 (CFO Act)

The Government Management Reform Act of 1994 (GMRA) amended the requirements of the CFO Act by requiring, among other things, the preparation and audit of organization-wide financial statements of 24 executive departments and agencies. The Accountability of Tax

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Dollars Act of 2002 extends the requirements of the GMRA to certain other agencies including FCC.

The government has a responsibility to use timely, reliable, and comprehensive financial information when making decisions, which have an impact on citizens' lives and livelihood. To meet this responsibility, the CFO Act establishes a leadership structure, provides for long-range planning, requires audited financial statements, and strengthens accountability reporting. Specifically, the CFO Act establishes the authority, functions and responsibilities of a Chief Financial Officer (CFO). These include, among others, that the CFO:

- Develop and maintain integrated accounting and financial management systems that comply with applicable accounting principles, standards, and requirements; internal control standards; and requirements of OMB, Department of the Treasury, and others;

- Direct, manage, and provide policy guidance and oversight of all agency financial management personnel, activities, and operations; and

- Implement agency asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and controls.

FCC did not fully meet the above criteria as explained in more detail in our *Independent Auditor's Report on Internal Control over Financial Reporting* (IC Report). The key items we identified include:

- FCC's financial management systems do not comply with certain accounting standards and requirements, and internal control standards;

- FCC's financial information system is not fully integrated. Data comes from various subsystems and spreadsheet programs for the accounting, preparing, and reporting of financial statements; and

- A memorandum for the preparation of fiscal year 2005 financial statements as required by OMB Circular No. 01-09, *Form and Content of Agency Financial Statements* was not issued by the CFO.

- Financial reporting oversight controls over the reporting components, and the financial reporting controls of the reporting components were not adequate.

Antideficiency Act

The Universal Service Fund (USF) is a special receipt fund and a special fund expenditure account accounted for as non-exchange revenue earmarked dedicated collections. Receipts are reported as appropriations (through invisible warrant) originally not subject to apportionment until fiscal year 2004 (see explanation below) in accordance with Treasury Financial Manual (TFM) 2-1500, *Description of Accounts Relating to Financial Operations.*

The Antideficiency Act requires that OMB apportion the appropriations. In September 2004, OMB issued an apportionment for the USF for the first time. OMB's decision to apportion the USF was explained to FCC as a correction of a previous error; OMB believed that the USF should have been apportioned starting with the first time it appeared in the President's Budget to Congress in 1997. As a result of this apportionment and in preparation for the implementation of the FCC released order FCC 03-232 dated October 3, 2003 requiring the administrator of the USF to prepare financial statements for the funds consistent with generally accepted accounting principles for Federal entities effective in fiscal year 2005, a determination was made by the FCC Office of General Counsel that USF's School and Library and the Rural Health Care Support Mechanisms' commitment letters were obligations as defined in OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget.* In addition, a change in the budgetary accounting of each investment purchase in non-federal securities was determined to be an obligation and outlay in fiscal year 2004 in accordance with TFM 2-3400, *Accounting for and Reporting on Cash and Investments Held Outside of the U.S. Treasury*.

The combination of these changes discussed above resulted in an Antideficiency Act violation for the entire fiscal year 2004 except on September 30, 2004. The total amount of the deficiency was estimated to be at $3.5 billion on September 24, 2004 as reported in a letter by the then FCC Chairman to the President, dated February 25, 2005.

In fiscal year 2005, USF was granted temporary exemption under Public Law 108-494, *Universal Service Antideficiency Temporary Suspension Act* (Act). The Act states that Section 1342 and subchapter II of Chapter 15 of Title 31, United States Code, do not apply to the following for the period December 23, 2004 and ending on December 31, 2005:

- to the amount collected or received as Federal universal service contributions, including any interest earned on such contributions; nor

- to the expenditure or obligations of amounts attributable to such contributions for the universal service support programs.

OMB Circular No. A-129 - Policies for Federal Credit Programs and Non-Tax Receivables

In fiscal year 2005, as in the prior year, FCC's Narrowband licenses did not have installment payment plan notes stating the loan amounts and terms. In addition, security agreements were not issued by FCC for this block of loans. These loans, with outstanding balances of $78 million as of June 30, 2005, are direct loans accounted for under the Federal Credit Reform Act of 1990. Sec. 502 of the Federal Credit Reform Act defines "direct loan" as a disbursement of funds by the Government to a non-Federal borrower under a contract that requires repayment of such funds with or without interest.

OMB Circular No. A-129, Section III, Loan Documentation, states "Loan origination files should contain loan applications, credit bureau reports, credit analyses, loan contracts, and other documents necessary to conform to private sector standards for that type of loan." Additionally, Section IV, Loan Servicing Requirements, states that "Approved loan files (or other systems of records) shall contain adequate up-to-date information reflecting the terms and conditions of the loan, payment history, including occurrences of delinquencies and defaults, and any subsequent loan actions which result in payment deferrals, refinancing or rescheduling."

Debt Collection Improvement Act of 1996 (DCIA)

FCC's Treasury Report on Receivables for administrative receivables submitted to the Department of the Treasury as of June 30, 2005, disclosed that no amounts have been referred for off-set and only $ 5.8 million of the $ 74.5 million of receivables was referred to the Department of the Treasury for cross-servicing. See IC Report, Section IX, for a more detailed explanation. Further, FCC did not perform an annual computer match of their delinquent debts with records of Federal employees as required by the DCIA.

The results of our tests of compliance disclosed no instances of noncompliance with other laws and regulations discussed in the preceding paragraphs, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 01-02.

Federal Financial Management Improvement Act of 1996 (FFMIA)

Under FFMIA, we are required to report whether FCC's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA Section 803(a) requirements.

The results of our tests disclosed instances described below, where FCC's financial management systems did not substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the USSGL at the transaction level.

Federal Financial Management Systems

- Integrated Financial Management System – The Federal Financial System and a few of the feeder systems (auction-related systems, property management system, license database systems, certain accounts receivable systems, and various spreadsheets) are not integrated or electronically interfaced. The reporting components' core financial systems are also not integrated. A user is not able to have one view into systems such that, at whatever level the individual is using the system, he or she can obtain the information needed efficiently and effectively through electronic means. See our IC Report, Sections III.B and V.A. for a more detailed explanation.

  The primary reason for noncompliance is that FCC was not able to meet its timetable and the length of time needed to implement several financial management systems' enhancements has taken longer than five years.

- Agency-wide Financial Information Classification Structure – As explained in detail in the IC Report, Section V, FCC's and its reporting components' core financial systems have not been fully consistent with the USSGL. In fiscal year 2005, the posting model used continued not to be in full compliance with approved posting model.

- Security – In fiscal year 2005, as in prior years, we identified several weaknesses, which collectively are considered a reportable condition, and are described in more detail in our IC Report, Section X. The weaknesses include: (1) FCC does not have a current Information Security Directive, (2) has not properly enforced the "principle of least privilege" across all its major applications, and (3) has not developed policies and procedures to ensure the protection of sensitive data transmitted to and from its contractors and business partners.

  Information protection-related weaknesses identified in FCC's information systems environment are repeat conditions. Impacted areas include FCC's distributed computer system as well as its mainframe computers. These vulnerabilities expose FCC and its computer systems to risks of external and internal intrusion, subject sensitive FCC information related to its major applications to potential unauthorized access, modification, and/or disclosure, and increase the risks of fraud, waste, and abuse.

  The weaknesses noted above have been identified since the fiscal year 1999 audit and progress in correcting the deficiencies has been slow. FCC explained that the primary reason for this noncompliance is the length of time needed to implement the corrective actions and the availability of resources.

Federal Accounting Standards

Our audit disclosed the following instances of non-compliance with Federal accounting standards:

- Statement of Federal Financial Accounting Standards (SFFAS) No. 1, *Accounting for Selected Assets and Liabilities,* paragraph 77, states, "When an entity accepts title to goods, whether the goods are delivered or in transit, the entity should recognize a liability for the unpaid amount of the goods." FCC recognizes accounts payable only when an invoice is received and logged into the financial system rather than when goods and services are received.

- The FCC implemented Budget Execution and Management System (BEAMS) in fiscal year 2004, as the cost accounting system to satisfy the requirements of SFFAS No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government.* While BEAMS met some of the requirements of SFFAS No. 4, it still could not accumulate outputs, assign costs to outputs, or calculate cost per unit of each type of output. In addition, BEAMS does not provide information needed to determine and report service efforts and accomplishments and information necessary to meet the requirements of Government Performance and Results Act or interface with a system that provides such information. See Section VI.A. in our IC Report.

- SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting,* states, "Related revenue should be matched with the cost." Specific earned revenue should be matched against specific program costs in accordance with the program costs and revenue description in the budget submission to Congress. FCC allocates the earned revenue among its programs based on the ratio of the program costs to the total costs. See Section VI.B. in our IC Report.

U.S. Standard General Ledger at the Transaction Level

Substantial compliance with the USSGL at the transaction level requires the agency's recording of financial events to be consistent with all applicable account descriptions and posting model attributes reflected in the USSGL issued by the Department of the Treasury, Financial Management Service, effective for the period covered by the audit. As discussed in our IC Report, Section V.B, the setup and posting model definitions do not fully comply with the transaction posting models consistent with the USSGL guidance and policies when recording and classifying transactions.

Also, as discussed in Section II of the IC Report, the accounting transactions of the Universal Service Fund, the Telecommunications Relay Services Fund, and the North American Numbering Plan, collectively called "reporting components," were not recorded in a manner consistent with the account definitions and posting model attributes specified in the USSGL. The reporting components also did not record budgetary entries at the transaction level.

FCC's Managing Director and the CFO have been assigned the responsibility of ensuring the substantial compliance with the FFMIA. A discussion of the actions taken by FCC and our recommendations to strengthen FCC's financial management systems are outlined in our IC Report. FCC management plans to continue with the corrective actions started or implemented in prior years.

Management Comment:

Management concurs. The aforementioned laws and regulations are addressed within the findings on the Independent Auditor's Report on Internal Controls over Financial Reporting. As FCC corrects and resolves identified issues, the occurrences on non-compliance will diminish.

****

We also noted certain immaterial instances of noncompliance that we have reported to management of FCC in a separate letter dated November 1, 2005.

This report is intended solely for the information and use of the management of FCC, FCC Office of Inspector General, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Clifton Gunderson LLP

Calverton, Maryland
November 1, 2005

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 10, 2005

TO: Chairman
Managing Director

FROM: Inspector General

SUBJECT: Inspector General Statement on the Federal Communications Commission's (FCC) Serious Management Challenges

In November 2000, the President signed the Reports Consolidation Act of 2000 (Public Law No. 106-531), which requires Inspectors General to provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This document responds to the requirements and provides the fiscal year 2005 submission to include in the Fiscal Year 2005 FCC Performance and Accountability Report.

We identified six significant management issues facing FCC for fiscal year 2005.

- Reporting Component Investigations and Fraud
- Financial Reporting
- Financial Reporting Components
- Information Technology and Information Systems Security
- Revenue Gap
- Physical Security and Protection of Personnel

The FCC continues to address these issues, many of which are of a long term nature and do not lend to themselves to quick fixes. Our assessment of the status of these challenges is enclosed.

The Reports Consolidation Act of 2000 permits agency comment to the Inspector General statements. To this effect, we request all comments or responses be received by my office by November 14, 2005.

H. Walker Feaster, III
Inspector General

Attachment

Cc: Mark Reger, Chief Financial Officer

Reporting Component Investigations and Fraud

Universal Service Fund

The Telecommunications Act of 1996 codified and modified the Federal Communications Commission's (FCC) longstanding policy of promoting universal telecommunications service throughout the nation. Per FCC direction, the Universal Service Administrative Company administers the four universal service support mechanisms of the Universal Service Fund (USF). The four universal service support mechanisms include: high cost, low income, rural health care, and schools and libraries. These support mechanisms are funded through mandatory payments from U.S. telecommunications providers, including local and long distance phone companies, wireless and paging companies, and payphone providers. USAC provides money directly to service providers to defray the cost of serving customers who use the telecommunications services.

Fraud is an inherent risk in the USF core business process: collection, certification, and disbursement of funds for telecommunications services. As of fiscal year-end 2005, 71 investigations have been initiated. This represents a six percent increase to initiated investigations since the previous reporting period. Of those investigations, 39 are on-going and 32 are closed. Investigations have led to indictments as well as subsequent sentencing relating to fraudulent actions. To date, nine individuals and three corporations have been indicted and accepted plea agreements in four separate investigations. Additionally, six corporations and five individuals have been indicted in another case that is currently scheduled for trial. FCC has taken action to address fraud in the USF business process; however, additional efforts are needed.

In addition to law enforcement activities, audits conducted of the schools and libraries support mechanism, commonly referred to as E-rate, disclosed significant potential recoveries. Currently, these recoveries are in excess of $40 million. Although lesser in amounts, additional auditor recommended recoveries exist for funds disbursed in the high cost and low income support mechanisms. FCC has taken action to improve oversight of the USF program; however, additional efforts are needed. Generally, controls over management oversight and accountability for receipt of USF funds by beneficiaries have been materially weak because of inadequate management controls, lack of a sufficient independent audit program to deter future fraudulent activity, and weaknesses in the structure of the program.

Furthermore, the Office of Inspector General is aware of enforcement and audit activities pertaining to the revenue contributed to the USF from the telecommunications industry. Although FCC's focus has been to address the disbursement and use of received funds, it has not fully considered or developed an approach to ensure compliance with contributor revenue requirements.

The Office of Inspector General has been unable to implement effective independent audit oversight of the USF program because of inadequate resources. In the summer of 2004, the Office of Inspector General and the USF administrator worked to establish a contract under which these organizations could obtain resources to conduct USF audits and support USF investigations. As part of this process, a request for proposal was released in November 2004 and contractor selection was finalized in March 2005. In April 2005, the USF administrator board of directors approved the selection of contractors presented by the review team and the USF administrator referred the matter to the FCC for approval. Subsequent to fiscal year-end, FCC communicated to the USF administrator that the procurement would need to be re-competed per Federal Acquisition Regulations. As a result of the subsequent decision by the Commission, the Office of Inspector General has reinstated planning for USF audits. However, the lack of access to resources anticipated under the agreement have impeded the ability of the Office of Inspector General to provide support to Federal investigations.

Telecommunications Relay Service Fund

Similar to the USF, fraud is an inherent risk in the Telecommunications Relay Service (TRS) fund. The TRS fund compensates providers for the reasonable cost of providing interstate telephone transmission services that enable a person with a hearing or speech disability to use such services to communicate with a person without disabilities.

To date, one corporation and one individual have been indicted and accepted settlement agreements. The agreement includes the return of $2 million disbursed funds and the forfeiture of related financial assets.

Financial Reporting

Financial Management Weaknesses

FCC does not maintain current and accurate financial data during the course of the year. As a result, FCC undertakes a massive, manually intensive effort to compile, analyze, and correct its financial data to prepare accurate financial statements quarterly and at fiscal year-end. FCC can enhance both its processes and timing of financial reporting practices, improve its policies and procedures to ensure consistent accounting practices, and continue its endeavor for an updated, integrated financial management system entity-wide.

FCC has made progress in correcting financial management weaknesses given the resources available. However, requests by financial managers for additional resources to address expanding financial requirements, oversight functions, and Office of Inspector General recommendations remain outstanding and resources are still required.

Recent improvements include the implementation and enhancement of FCC's cost accounting system and certain modules of its revenue management system. To address this challenge, currently FCC is reviewing potential replacements for its core accounting and general ledger system. Despite these actions, FCC needs to take additional steps to ensure proper financial management reporting. Specifically, it has not made the major changes needed to address a long-standing condition in financial reporting. Significant elements of this condition include the need for:

- integrated financial management system(s) within FCC as well as its reporting components;
- a cost accounting system that accounts for unit costs per generally accepted accounting principles, provides information for performance measurement, and routinely provides this information to program managers;
- complete budgetary accounting for consolidating reporting components;
- timely recording and analysis of financial activities for certain accounts;
- a complete and thorough process for compiling the entity consolidated statements with minimum errors; and
- expanded oversight of component accounting activities.

Financial Management Relationships with Consolidating Component Entities

FCC lacks clear, comprehensive, and accountable relationships with its financial reporting consolidating component entities, which include the administrators of the Universal Service Fund, the Telecommunications Relay Services fund, and the North American Numbering Plan (NANP), as well as their respective service organizations. As a result, FCC's consolidated financial reporting process experiences delays, errors, and recently, attestation impacts.

Primarily, FCC relies on periodic financial and data reporting to compile its consolidated financial reporting products. To date, FCC accountants and financial managers are not involved in the financial operations of these entities nor do they possess a comprehensive understanding of component entity financial or business processes. Specifically, FCC staff lack complete understanding of each component entity's: functions, internal control, information technology aspects, contracted service vendor operations, and other business applications that derive the component's periodic reporting. FCC has not invested resources to obtain this understanding. For many of the component entities and contracted service organizations, FCC staff only make on-site visits at component locations if a decision if made to accompany the financial auditors.

FCC's financial compilation process requires FCC accountants and staff to prepare most component entity submissions for Federal financial reporting requirements. This is in direct contrast to a process where the component entity is responsible for the preparation of its financial reporting and FCC accountants act as reviewers and consolidators, a relationship expected for an organization of FCC's size and financial balance. The current FCC relationship is weakened and inefficient, by not placing accountability on the component entities, thereby diverting needed resources from consolidating reporting efforts.

The June 30, 2005 interim consolidated financial statements are a current year example of the effects of this challenge. These statements were submitted late to required Federal agencies as well as the FCC's auditors. Additionally, they contained material unsupported adjustments to balances, as well numerous material adjustments to make them consistent with other Federal financial reporting and normal account relationships.

Disclaimers of Opinion on FCC Consolidated Financial Statements

FCC senior management has been slow to address, mitigate, and remedy financial issues which resulted in disclaimers of opinion on FCC's Fiscal Years 2004 and 2003 Combined Statement of Budgetary Resources and Consolidated Statement of Financing. Although FCC responded effectively in fiscal year 2004 when a determination, in concurrence with the Office of Management and Budget, was made regarding material matters to these statements; management made minimal efforts to address its inability to make representations concerning the accuracy or completeness of these matters until mid-August 2005. Additionally, during the interim, between fiscal year opening to August 2005, FCC program and financial management staff were not empowered to address existing conditions. As stated in the fiscal year 2005 management representation letter, unfortunately "[FCC] again this year [makes] no representations concerning the accuracy or completeness of the information…reported as an opening balance on September 30, 2004 or the activity associated with this account[s] during [fiscal year] 2005."

Relatedly, senior agency management responded untimely and incompletely to formal inquiries from the Office of Inspector General regarding fundamental audit and accounting issues pertaining to these material matters. At the close of fieldwork, formal audit requests and further inquiries for these matters await an informative and effective response.

Moreover, senior management's reluctance to sign a management representation letter, which resulted in disclaimers of opinion for all principal financial statements for fiscal year 2005, overshadows the continuing issues related to the fiscal years 2004 and 2003 disclaimers of opinion. The President's Management Agenda (PMA) defines success or "green" for financial performance as:

- an unqualified audit opinion,
- with no auditor reported material weaknesses,
- no material noncompliance with laws and regulations,
- no chronic or significant Antideficiency Act violations,
- which is Federal Financial Management Improvement Act of 1996 compliant,

- no material weaknesses for Federal Managers' Financial Integrity Act of 1982 Section 2 and 4, and
- submitted to meet reporting deadlines.

For the audit period of fiscal years 2004 and 2005, FCC fails all required elements to be categorized as "green" in the PMA.

Financial Reporting Components

Throughout its history, FCC created subsidiary organizations and administrative components, subject to various levels of FCC oversight, to conduct Commission business and meet the agency mission. Presently, there are three financial reporting components of the FCC: the Universal Service Fund, the Telecommunications Relay Services Fund, and the North American Numbering Plan. Fundamentally, these organizations were created without a complete assessment or determination of how component functions or responsibilities would comply with Federal laws and regulations, policies, or concepts. This creates considerable confusion between FCC and its components.

In fiscal year 2003, FCC adopted Commission Order FCC 03-232, the first of what was expected to be a series of orders defining the applicability of certain laws and regulations to these organizations and components. Although the order defined the applicability of certain requirements for two of three current financial reporting components, it did not address the North American Numbering Plan. Additionally, the scope of the new requirements was fairly ambiguous as to which relevant provisions of Federal financial management and reporting statutes and laws it applied. To date, FCC has not issued similar orders to address this issue, nor clarified the relevancy of the other existing provisions. Thus, the applicability of key provisions of Federal financial management and reporting statutes, as well as some in their entirety, remains undecided.

This challenge has existed for multiple reporting periods and continues to exist to date. During fiscal year 2005, the reporting components addressed by Commission Order FCC 03-232 progressed toward meeting requirements, but much remains to be completed. Recently, the depth of this challenge was compounded when original subsidiary organizations contracted with third party service organizations to perform their functions. An understanding of the applicability of certain laws and regulations addressed in FCC Order 03-232 is not shared by the service organizations.

Near fiscal year-end 2004, one component's management informed FCC it would not meet the implementation date for key elements of Commission Order 03-232. At the close of fiscal year 2005, key elements noted in 2004 remain to be implemented. Specifically, the component entity does not satisfy FCC Order 03-232's requirement for Federal budgetary accounting. To the best of our knowledge, no temporary, interim, or corrective actions to mitigate this challenge have been provided to or by FCC management.

Furthermore, bureaus and offices which facilitate reporting component oversight are slow to address known problem areas and fundamental questions. This observation is not limited to those directly responsible for component oversight, but to other relative areas including: legal, planning, financial management, information technology, and senior and general management. Identified issues and problem areas languish for multiple fiscal years with limited or no resolution. This fact was evident during fiscal year 2005 as FCC failed to or significantly delayed responding to inquiries on fundamental matters. Specifically, fundamental questions from component entities and the Office of Inspector General remain unanswered or were responded to ambiguously. During fiscal year 2005, FCC's actions are still categorized as reactive versus proactive oversight, albeit a slower approach.

Information Technology and Information Systems Security

As technology advances and our reliance on technology increases, the need for a strong information technology infrastructure becomes more important. FCC's operations have become increasingly more reliant on automated systems and further integration of FCC data and services with external users via the internet is escalating. Along with explosive growth in computer connectivity comes the ability to disrupt or sabotage critical operations, read or copy sensitive data, and tamper with critical processes.

FCC's information technology control environment and systems security need to be enhanced. FCC is noncompliant with a number of Federal statutes and policies. Commission systems have been susceptible to malicious attacks via viruses and worms, and unauthorized access. Inadequacies and inconsistencies exist in outsourced systems and network access request process and efforts to develop and test FCC's contingency plans have been slow. Additionally, FCC lacks a comprehensive capital asset plan, needs to further enhance its audit trail facility utilization and review, and strengthen its password access controls.

FCC has taken steps to address its information technology and information systems security vulnerabilities. FCC developed an agency-wide security plan and is working toward compliance with required Federal policies and statutes; however, completion dates for key items to address this challenge have repeatedly been revised due to budget constraints. In the area of information system security, FCC successfully tested its continuity of operations plan during the "Pinnacle 2005" interagency test. Furthermore, the Commission has begun implementing its capital investment program. The most visible element of this program is the Information Technology Steering Committee.

Revenue Gap

Although FCC collects approximately $280 million in regulatory fees each year, FCC cannot determine if all required fees are collected. The difference between what is collected, an amount subject to Congressional determination, and what should have been collected if all regulated parties fully paid their fees, is deemed a revenue gap.

FCC's ability to bill regulatory fee payees is significant progress relating to collection of known payees. During fiscal year 2005, FCC expanded on its capability to bill regulatory fee payees. In fiscal year 2005, FCC billed 3,164 payees comprising $145.8 million in regulatory fees. As of fiscal year-end, FCC received $139.6 million of the billed regulatory fees. Furthermore, FCC purports its billing and assessment represents in excess of 94% of all regulatory fees owed. However, since FCC does not have a complete universe of potential regulatory fee payees, it cannot determine the total regulatory fee subject to collection. FCC's inability to determine total fee for collection creates an incomplete universe for facilitating regulatory fee rate assessment in future years.

Physical Security and Protection of Personnel

This challenge is not unique to FCC. Since September 11, 2001, physical security and protection of personnel are critical issues in the Federal Government and the United States in general. As the world experienced the devastating effect of the tsunami, Hurricane Katrina, and Pakistani earthquake, it reminded us that threats are not limited to actions of man.

The FCC has taken steps to identify and implement security measures to protect FCC personnel and its physical infrastructure. Specifically, FCC created a program to inform personnel regarding potential threats and threat management, prepared measures to address potential catastrophic events, and made security enhancements to FCC facilities. In the area of physical security, the Commission significantly upgraded the security of its Gettysburg facility and has enhanced physical access security to the Portals II building by installing concrete street barriers. Despite these efforts, the Commission has personnel and physical infrastructure issues to complete. For example, FCC has not completed its Business Continuity Plans for key bureaus and offices. Additionally, although most were completed, some facility security and protection enhancements have not been completed to date.

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Memorandum

To: H. Walker Feaster III, Inspector General

From: Andrew S. Fishel, Managing Director

Date: November 15, 2005

Re: Responses to the Inspector General's Statement on the Federal Communications Commission's Major Management Challenges

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Attached please find the official agency responses to the OIG management challenges provided as part of the annual agency financial statement audit.

Attachment

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Management Response to
Serious Management Challenges
9/30/05

Management appreciates the Office of Inspector General's (OIG's) assessment of the challenges facing management with respect to the risk of waste, fraud, and abuse affecting the Universal Service Fund (USF) and the Telecommunications Relay Service (TRS) fund; the oversight and management of the Universal Service Administrative Company (USAC) for the USF, the National Exchange Carrier Association (NECA) for the TRS fund, and Welch & Company, LLP for the North American Numbering Plan (NANP); financial reporting; information technology and security; and the physical security and protection of the Federal Communications Commission's (Commission's) employees. Management has already started to address many of these challenges and will develop a plan to address these issues during FY 2006. Management is looking forward to working with the OIG in this process.

In June 2005, the Commission launched a comprehensive review of the management, administration, and oversight of the USF. In this proceeding, the Commission is exploring ways to address the management and administration issues raised by the Government Accountability Office (GAO) and others, including whether fundamental structural reform will improve the management and administration of the USF. The Commission is also evaluating ways to ensure USF monies are used properly and to safeguard the USF from waste, fraud, and abuse. The comment cycle for this proceeding closes in December 2005, and management will work to address these issues as quickly as possible.

With respect to the OIG's plans to enhance oversight of the USF through additional audits, management notes that an Office of General Counsel (OGC) review of the procurement conducted by USAC and the OIG revealed fundamental problems with competitive procurement principles contained in the Federal Acquisition Regulation (FAR) and operational guidance provided to USAC during FY 2005. OGC noted these problems in a memorandum submitted to the Chief of Staff that provided a range of options to cure the procurement deficiencies, including modifying the award selection or restarting the procurement process. The Chief of Staff forwarded the OGC memorandum to the OIG and informed the OIG that deciding upon the appropriate course of action was the OIG's decision to make. The OIG decided to restart the procurement process. Although management did not make this decision, management did communicate the results of the OIG's decision to USAC and has been assisting to ensure the process is fully competitive.

With respect to the financial reporting issues and the audit opinion, the outside auditor, Clifton Gunderson, LLP, did not provide an opinion concerning the Commission's financial statements. Management cooperated fully with the audit. In its report, the outside auditor explains that it did not provide an opinion because management did not provide "a management representation letter signed by the chairman of the FCC." During the audit, the OIG and the outside auditor requested that management deviate from the practice followed in every previous financial statements audit by having the Commission's chairman sign the management representation letter. The OIG provided several primary explanations for why the outside auditor and the OIG would not continue to follow the established practice: the appointment of a new chairman midway through the fiscal year and noncompliance with accounting requirements that occurred prior to the appointment of a new chairman. Commission management adhered to established practice – a practice followed and accepted by the Clifton Gunderson, LLP and the OIG in every previous Commission financial statements audit – and submitted a management representation letter signed by the Chief Financial Officer (CFO) and the Managing

Director. In addition, management notes that its signatory practices were reviewed by the GAO, which noted no deficiencies or problems in its July 2005 report. The OIG provided a written response to the GAO's report and noted no exceptions or concerns with the GAO's conclusions. Although the outside auditor and the OIG have accepted management's signatory practices in every past financial statements audit, the outside auditor and the OIG determined that this approach would not provide sufficient evidential matter to conduct the audit for FY 2005 and thus did not provide an opinion.

Appendix A: Glossary of Acronyms

3G	Third generation
ADA	Americans with Disabilities Act
ADSL	Asymmetric Digital Subscriber Lines
Agency	Federal Communications Commission
AIS	Automatic Identification Systems
AMSS	Aeronautical Mobile Satellite Service
APCO	Association of Public Safety Officers International. Inc
APOA	Alternate Processing Options Analysis
ARC	Appalachian Regional Commission
ASL	American Sign Language
ATC	Ancillary Terrestrial Component
AWS	Advanced Wireless Services
BAS	Broadcast Auxiliary Service
BEAMS	Budget Execution and Management System
BIA	Business Impact Analysis
Big LEO	Low-Earth Orbit Mobile-Satellite systems
BOCS	Bell Operating Companies
BPD	Bureau of Public Debt
BPL	Broadband Power Lines
BRS	Broadband Radio Service
C&A	Certification and Accreditation
CA	Communications Assistant
CALEA	Communications Assistance for Law Enforcement Act
CDBS	Consolidated Database System
CDMA	Code Division Multiple Access
CEPT	European Conference of Postal and Telecommunications Administrations
CFS	Commission's Financial Statements
CITEL	Inter-American Telecommunication Commission
CLE	Continuing Legal Education
CLEC	Competitive Local Exchange Carrier
CMRS	Commercial Mobile Radio Services
COMAD	Commitment Adjustment

Commission	Federal Communications Commission
COOP	Continuity of Operations Plan
COTS	Commercial off-the-shelf
CPI	Consumer Price Index
CPIC	Capital Planning and Investment Control
CPI-U	Consumer Price Index for all Urban Consumers
CSEA	Commercial Spectrum Enhancement Act
CSP	Computer Security Program
CSRS	Civil Service Retirement System
DAB	Digital Audio Broadcasting
DBS	Direct Broadcast Satellite
DCIA	Debt Collection Improvement Act
DRP	Disaster Recovery Plan
DSL	Digital Subscriber Lines
DSRC	Dedicated Short-Range Communications
DTV	Digital Television
E911	Enhanced 911
EAS	Emergency Alert System
EBS	Educational Broadband Service
EI	Effective interest method
ERP	Enterprise Resource Planning
ESMR	Enhanced Specialized Mobile Radio Service
ESV	Earth Station on Vessel
EV-DO	Evolution-Data Only
FACA	Federal Advisory Committee Act
FACTS 1	Federal Agency Centralized Trial Balance System
FAR	Federal Acquisition Regulations
FBI	Federal Bureau of Investigation
FCC	Federal Communications Commission
FCCU	FCC University
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employee Compensation Act
Federal	Federal Government
FEDGAAP	Generally Accepted Accounting Principles for Federal Government Agencies

FERS	Federal Employee Retirement System
FFMIA	Federal Financial Management Improvement Act
FFS	Federal Financial System
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers Financial Integrity Act
FOH	Federal Occupational Health
FRN	FCC's required registration numbers
FTE	Full-time equivalents
FTTC	Fiber-to-the-curb
FTTH	Fiber-to-the-home
FY	Fiscal Year
GAAP	Generally accepted accounting principles
GAO	Government Accountability Office
GET	Government Emergency Telephone services
GFRS	Government wide report system
GHz	Gigahertz
GOVGAAP	Generally Accepted Accounting Principles for Government Agencies
GPRA	Government Performance and Results Act of 1993
HD	High Definition
IB	International Bureau
IBFS	International Bureau Electronic Filing System
IBOC	In-Band On-Channel
ICASS	International Cooperative Administrative Support Services
IEEE	Institute of Electrical and Electronic Engineers
IMPACT	Improving Management of Policy Activities through Collaborative Technologies
IP	Internet Protocol
IPIA	Improper Payments Information Act
ISP	International Settlements Priority
ISP	Internet Services Provider
IT	Information Technology
IT DRP	Information Technology Disaster Recovery Plan
ITFS	Instructional Television Fixed Service
ITS	Intelligent Transportation System
ITS	International Telecommunications Settlement

ITSP	Interstate Telecommunications Service Providers
ITU	International Telecommunications Union
ITU-R	International Telecommunication Union Radiocommunication
IVDS	Interactive Video and Data Service
IVR	Interactive Voice Response
IWG	Informal Working Group
JFMIP	Joint Financial Management Improvement Program
JSA	Joint Services Agreement
Kbps	Kilobits per second
Leap	Leap Wireless International, Inc.
LEC	Local Exchange Carriers
LMDS	Local Multichannel Distribution Service
LNP	Local Number Portability
LPFM	Low Power FM
LPTV	Low Power Television
MDS	Multichannel Distribution Service
MHz	Megahertz
MMDS	Multichannel Multipoint Distribution System
MSRC	Media Security and Reliability Council
MVPD	Multichannel Video Programming Distribution
NA	Not applicable
NAL	Notice of Apparent Liability
NANP	North American Numbering Plan
NANPA	North American Numbering Plan Administrator
NCS	National Communications System
NECA	National Exchange Carriers Association
NENA	National Emergency Number Association
NEPA	National Environmental Policy Act
NextWave	NextWave Communications, Inc.
NFC	National Finance Center
NOI	Notice of Inquiry
NPRM	Notice of Proposed Rulemaking
NRIC	Network Reliability Interoperability Council
NS/EP	National Security / Emergency Preparedness

NTIA	National Telecommunications and Information Administration
OECD	Organization for Economic Development and Cooperation
OET	Office of Engineering and Technology
OFDM	Orthogonal Frequency Division Multiplexing
OGC	Office of General Counsel
OHS	Office of Homeland Security
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMD	Office of the Managing Director
OPM	Office of Personnel Management
PA	Pooling Administrator
PAR	Performance and Accountability Report
PART	Program Assessment and Rating Tool
PCS	Personal Communications Service
PDA	Personal Digital Assistants
PDP	Personal Development Plan
PERM	Performance Evaluation and Records Management
PLMR	Private Land Mobile Radio
PP&E	Property, Plant and Equipment
PSAP	Public Safety Answering Points
PSIP	Program and System Information Protocol
QPRR	Quarterly Performance and Results Review
RAMIS	Revenue Accounting and Management Information System
Report	Performance and Accountability Report
RF	Radio Frequency
RFID	Radio Frequency Identification
RUS	Rural Utilities Service
S&E	Salaries & Expenses
SCP	Special Coordination Procedure
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
SHVERA	Satellite Home Viewer Extension and Reauthorization Act of 2004
SMR	Specialized Mobile Radio
SPTF	Spectrum Policy Task Force

SSP	System Security Plan
ST&E	Security Test and Evaluation
STA	Special Temporary Authority
TCB	Telecommunication Certification Bodies
TDF	Telecommunications Development Fund
TDM	Time Division Multiplexing
TELRIC	Total Element Long-Run Incremental Cost
TFM	Treasury Financial Manual
TG 1/8	Task Group
The Act	The Communications Act of 1934, as amended
The Telecommunications Act	The Telecommunications Act of 1996
Treasury	U.S. Department of the Treasury
TRS	Telecommunications Relay Service (Fund)
TSP	Telecommunications Service Priority
TV	Television
U.S.	United States
U.S.C.	United States Code
UCC	Uniform Commercial Code
UNE	Unbundled Network Element
USAC	Universal Service Administrative Company
USCG	United States Coast Guard
USDA	United States Department of Agriculture
USF	Universal Service Fund
UWB	Ultra-wideband
VERA	Voluntary Early Retirement Authority
VNRs	Video news releases
VoIP	Voice-over Internet Protocol
VRS	Video Relay Service
W-CDMA	Wideband Code Division Multiple Access
Wi-Fi	Wireless Fidelity
WISP	Wireless Internet Services Provider
WLAN	Wireless Local Area Network
WPAS	Wireless priority access service
WRC-07	World Radiocommunication Conference 2007

WTO	World Trade Organization
WTSA	Telecommunications Standardization Assembly