# FEDERAL COMMUNICATIONS COMMISSION

## Fiscal Year 2007
## Performance and Accountability Report

(October 1, 2006 – September 30, 2007)

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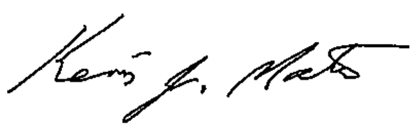
# Message from the Chairman

It is my great pleasure to present the Federal Communications Commission's (Commission) Fiscal Year 2007 Performance and Accountability Report. This report combines the Commission's performance and financial reporting in one document, and the information presented within is reliable and complete.

We are continuing to work 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 continuing to develop 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 run a tight fiscal ship and adhere to strong accounting and financial management practices and procedures. The investments we have made to improve the Commission's financial management continue to pay off – the independent auditor notes in its report that the Commission continued to make progress in strengthening controls over financial reporting and information technology. As a result, I am pleased to announce that, for the second consecutive year, the Commission has received both an unqualified audit opinion and an audit report that shows no "material weaknesses" affect the Commission's financial operations. Despite the progress made over the past year, much work remains to be done, most notably the deployment of a new core financial system, which the Commission worked diligently towards over the past fiscal year. We look forward to continuing to work with the Commission's Office of Inspector General and its independent auditors to identify and quickly address areas that need improvement.



Kevin J. Martin
Chairman
November 15, 2007

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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 Management's Discussion and Analysis, including: the Commission's mission; an overview of the agency's reporting structure; Fiscal Year (FY) 2007 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 Commission.

Chapter 2 contains the annual program performance report. Chapter 3 presents the Commission's principal financial statements for FY 2007, notes to the consolidated financial statements, and required supplementary information. Chapter 4 includes other accompanying information, such as management challenges and details on reporting improper payments pursuant to the Improper Payments Information Act. Appendix A contains a glossary of acronyms used in this report.

This PAR is a guide to key Commission initiatives and activities for FY 2007 that depicts the breadth of the Commission's work. An electronic version of the FY 2007 PAR can be found on the Commission'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 Commission 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 Commission also regulates telecommunications services for hearing-impaired and speech-impaired individuals, as set forth in Title IV of the Americans with Disabilities Act (ADA). The Commission's headquarters is located in Washington, D.C., with three regional offices, sixteen district offices, and nine resident agent offices throughout the Nation.

The Commission consists of five commissioners, appointed by the President and confirmed by the Senate for five-year terms. 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*

As specified in section one of the Communications Act, the Commission's mission is to "make available, so far as possible, to all the people of the United States, without discrimination on the basis of race, color, religion, national origin, or sex, rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges." [1] In addition, section one provides

[1] 47 U.S.C. § 151.

that the Commission was created "for the purpose of the national defense" and "for the purpose of promoting safety of life and property through the use of wire and radio communications."[2]

## *FCC ORGANIZATIONAL STRUCTURE*

The Commission's Chairman leads the Commission as head of the agency. The Commission is staffed by the agency's bureaus and staff offices.

The Commission has seven operating bureaus and ten offices that implement the Commission's six strategic goals. The bureaus and offices active during FY 2007 were:

- Consumer & Governmental Affairs Bureau
- Enforcement Bureau
- International Bureau
- Media Bureau
- Public Safety and Homeland Security 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
- 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 Commission hearings.[3]

Detailed information on specific bureau and office responsibilities and the Commission's organizational chart can be found in the Code of Federal Regulations on the Commission'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 Commission components for financial statement purposes include:

Universal Service Fund (USF) - The Telecommunications Act of 1996 further amended the Communications Act of 1934 to codify and modify the Commission's longstanding policy of promoting universal telecommunications service throughout the nation. Pursuant to section 254, the Commission established rules and regulations governing how certain telecommunications service providers contribute to the USF and how those monies are disbursed.[4]

[2] *Id.*
[3] *See* 47 C.F.R. § 0.5 et seq.
[4] 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 section 225 of the Act. This statute provides for a mechanism to support relay services necessary for telecommunications access by speech or hearing impaired populations.[5]

The Universal Service Administrative Company (USAC) administers the four universal service support mechanisms of the USF under the Commission's direction. These support mechanisms are funded through mandatory contributions from U.S. telecommunications service providers, including local and long distance phone companies, wireless and paging companies, payphone providers, and providers of interconnected Voice over Internet Protocol (VoIP) services. 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 in high cost and rural areas, and to defray the costs of serving low income consumers as well. In addition, these mechanisms provide support for discounts to schools and libraries and rural health care providers. Additional information on USAC and the USF, respectively, can be found at the following websites: http://www.usac.org and http://www.fcc.gov/wcb/tapd/universal_service/welcome.html.

The National Exchange Carrier Association (NECA) administers the TRS Fund under the Commission'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. Additional information on NECA and TRS can be found at: http://www.neca.org/ and http://www.fcc.gov/cgb/dro/trs.html, respectively.

<u>North American Numbering Plan (NANP)</u> - 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 Commission appointed a NANP Administrator (NANPA), a national Pooling Administrator (PA) to administer thousands block number pooling, and a Billing and Collection Agent. The Commission selected Welch and Company to be the Billing and Collection Agent for NANP effective October 1, 2004.

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

[5] 47 U.S.C. § 225.

## *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 Commission has identified six long-term strategic goals in its FY 2006 - FY 2011 Strategic Plan:

| | |
|---|---|
| **BROADBAND** | *All Americans should have affordable access to robust and reliable broadband products and services. Regulatory policies must promote technological neutrality, competition, investment, and innovation to ensure that broadband service providers have sufficient incentive to develop and offer such products and services.* |
| **COMPETITION** | *Competition in the provision of communications services, both domestically and overseas, supports the Nation's economy. The competitive framework for communications services should foster innovation and offer consumers reliable, meaningful choice in affordable services.* |
| **SPECTRUM** | *Efficient and effective use of non-federal spectrum domestically and internationally promotes the growth and rapid deployment of innovative and efficient communications technologies and services.* |
| **MEDIA** | *The Nation's media regulations must promote competition and diversity and facilitate the transition to digital modes of delivery.* |
| **PUBLIC SAFETY AND HOMELAND SECURITY** | *Communications during emergencies and crises must be available for public safety, health, defense, and emergency personnel, as well as all consumers in need. The Nation's critical communications infrastructure must be reliable, interoperable, redundant, and rapidly restorable.* |
| **MODERNIZE THE FCC** | *The Commission shall strive to be a highly productive, adaptive, and innovative organization that maximizes the benefit to stakeholders, staff, and management from effective systems, processes, resources, and organizational culture.* |

## *STRATEGIES & RESOURCES TO ACHIEVE GOALS*

The Commission has identified strategies and resources to achieve its performance goals for each strategic goal. Details on the Commission'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.

## *FUTURE CHALLENGES*

In prior reports, the Commission identified certain external factors that may affect the Commission's ability to achieve its goals and objectives. These external factors remain the same and are described below.

• Market and economic uncertainties. Efficient spectrum use 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, further progress is needed to deploy broadband infrastructure, particularly in rural areas. Some platforms may not be 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 likely affected adoption decisions, despite the availability of packages offering bundled broadband and other services.

• International Developments. Due to the globally interconnected nature of many communications technologies, fully competitive communications markets in the U.S. may depend in part 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 Commission 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 2007 Highlights*

***PERFORMANCE HIGHLIGHTS***

The Commission assesses the achievement of its performance, with regard to the Government Performance and Results Act (GPRA), through the accomplishment of its performance goals. Progress toward accomplishing these performance goals is measured by the progress and completion of various programs and efforts during the fiscal year. Included among the external influences, beyond the FCC's programs and efforts that may influence whether the Commission fully meets every performance goal, are economic, legal, and organizational factors. These factors are highlighted in the FCC's FY 2006-2011 Strategic Plan, which can be found at: http://www.fcc.gov/omd/strategicplan.

In FY 2007, the Commission made significant progress toward accomplishing its nineteen performance goals as noted below. Greater detail on these accomplishments is found in Chapter 2 of this report.

**FY 2007 Accomplishments in Broadband:**

- Broaden the deployment of broadband technologies:
    - As of December 2006, there were 82.5 million high-speed and 59.5 million advanced services Internet access connections in service, a 49% increase from the end of 2005 and a 605% increase from December 2001. High-speed lines are defined as having data transmission speeds exceeding 200 kbps in at least one direction, while advanced services lines have speeds exceeding 200 kbps in both directions.
    - Implemented the Rural Health Care Mechanism Pilot Program, an enhanced funding initiative intended to help health care providers construct broadband networks to provide telehealth and telemedicine services throughout the nation.
    - Added interconnected Voice over Internet Protocol (VoIP) as an eligible service for the Universal Service Fund.
    - Initiated a proceeding to amend technical rules applicable to certain types of antennas operating on an unlicensed basis in the 57-64 GHz band. The proposed rule changes would extend the ability to supply very high speed broadband service to office buildings and other commercial facilities where adding new cables would be too costly.
    - Clarified that Internet Protocol captioned telephone service (IP CTS) is a type of Telecommunications Relay Service (TRS) eligible for compensation from the Interstate TRS Fund.
    - Extended the disability access requirements of sections 225 and 255 of the Communications Act to providers of interconnected VoIP services and to manufacturers of specially designed equipment used to provide those services.
    - Developed a comprehensive campaign to help foster broadband development by outreach efforts designed to increase consumer awareness about the benefits and availability of broadband.
    - Issued an order establishing new policies and service rules for 17/24 GHz Broadcasting-Satellites. As a result, a new generation of broadband services will be introduced to the public, providing a mix of local and domestic video, audio, data, video-on-demand, and multi-media services to U.S. consumers.
    - Commission staff worked in various international fora to advance the Commission's agenda for broadband by participating in staff level discussions with international policymakers.

- Define broadband to include any platform capable of transmitting high-bandwidth intensive services, applications, and content:
  - Issued a Notice of Proposed Rulemaking seeking comment on ways to obtain more precise information about broadband deployment and subscribership generally, and about mobile wireless broadband in particular.

- Ensure harmonized regulatory treatment of competing broadband services:
  - Continued efforts to develop a consistent regulatory framework across broadband platforms by issuing an order classifying Broadband over Power Line-enabled Internet access service as an information service functionally integrated with a telecommunications transmission component.
  - Adopted a finding that wireless broadband Internet access service is an information service, furthering the Commission's efforts to establish a consistent regulatory framework.

- Encourage and facilitate an environment that stimulates investment and innovation in broadband technologies and services:
  - Modified the band plan for the 700 MHz band, which is being recovered as a result of the digital television transition, and established related service rules for commercial and public safety licenses in the band. The service rules will help create a national broadband network for public safety that will address the interoperability problems of today's system, provide for a more open wireless platform that will facilitate innovation and investment, and facilitate the emergence of next generation wireless broadband services.
  - Completed the auction of 90 MHz of highly valuable AWS spectrum, which can be used to provide a wide array of innovative wireless services, including voice, data, video, and other wireless broadband services offered over 3G and 4G networks. The auction resulted in net winning bids totaling $13.7 billion. By April 2007, 1,086 licenses were issued to the winning bidders in a little over six months from receipt of the license applications.
  - Reduced regulatory burdens for 18 GHz band terrestrial Fixed Microwave Services that are subject to involuntary relocation to make way for new satellite services.
  - Took further steps to promote competition, innovation, and investment in the Broadband Radio Service and Educational Broadband Service.

**FY 2007 Accomplishments in Competition:**

- Promote access to telecommunications services for all Americans:
  - The percentage of U.S. consumers that can choose between multiple wireline and wireless service providers increased significantly since the beginning of the decade. 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 93% in 2006. 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 98% in 2006.
  - The consumer price for telephone services has declined by 1.5% over the last nine years in comparison to the consumer price for all goods and services, which has increased by 28.8%. The average price per minute for a wireless telephone call has fallen from 18 cents per minute in 2000 to 7 cents per minute in 2006. The average international calling rate for U.S. consumers fell from 51 cents per minute in 1999 to 11 cents per minute in 2005.

- Preserved the contribution base for the Universal Service Fund (USF) by upholding 18 decisions of the Universal Service Administrative Company (USAC) finding that contributors were not in compliance with the Commission’s USF contribution rules and orders.
- Improved the financial management of the USF. Adopted a Memorandum of Understanding with USAC to establish metrics and improve performance. A detailed analysis of USAC’s administrative expenses was completed. The Commission also adopted orders granting more than 700 appeals of decisions of the universal service fund administrator as part of its efforts to ensure that eligible schools and libraries obtain access to discounted telecommunications and information services, including broadband access.
- Adopted an order strengthening the safeguards against waste, fraud, and abuse of USF. The order adopted performance measurements for the Administrator, document retention requirements, and comprehensive debarment rules. In addition, the order adopted penalties for USF contributors who fail to make timely payments.
- Initiated corrective action efforts in response to the results of the Office of Inspector General’s audit program for USF which included 459 audits of USF program participants to determine whether USF contributions and distributions were in compliance with the Commission's rules.
- Held an E911 Disability Access Summit to focus on E911 calling and access for persons with hearing and speech disabilities.
- Authorized a number of Access Broadband Over Power Lines devices that have safeguards against harmful interference to existing radio services. Implementation of these devices will provide consumers an additional choice in broadband providers.
- Granted access for two Netherlands-authorized satellites to provide Direct Broadcast Satellite (DBS) service to U.S. consumers, creating an opportunity for increased competition in the U.S. market.

- Ensure that American consumers can choose among multiple reliable and affordable communications services:
  - Continued efforts to promote local competition, granting forbearance petitions and extending statutory deadlines where necessary to provide relief from Title II common carrier requirements and Computer Inquiry rules.
  - Issued a Report and Order and Declaratory Ruling eliminating barriers to competitive entry in multi-unit buildings where a new entrant seeks to compete against an incumbent provider. This item also addressed access to inside wiring for competitive entry for video services.
  - Reviewed over 7,200 applications involving assignments of licenses or transfers of control, including requests resulting from mergers, to ensure these transactions did not hinder competition.
  - Informed Congress on market conditions by producing reports on competitive market conditions for various communications services.
  - Took actions that provided DBS operators with capacity that will allow for the expansion of service into more markets, expand their programming offerings and make more efficient use of available spectrum.
  - Adopted rules and provided guidance to implement the statutory directive that local franchising authorities not unreasonably refuse to award competitive cable franchises.
  - Initiated a proceeding to determine whether the prohibition on exclusive contracts for satellite cable programming or satellite broadcast programming between vertically integrated programming vendors and cable operators continues to be necessary to preserve and protect competition and diversity in the distribution of video programming.

  - In response to the Call Home Act of 2006, adopted an Order forbearing from applying certain Universal Service and Telecommunications Relay Service contribution requirements to calls placed by armed forces personnel stationed or deployed outside the United States to their families or friends at home.
  - Adopted an order finding that automatic roaming is a common carrier obligation for CMRS carriers.

- Promote pro-competitive and universal access policies worldwide:
  - Participated in numerous international telecommunications fora and conferences.
  - Developed recommendations for measures to protect U.S. service providers from anticompetitive conduct by foreign carriers.
  - Supported participation of FCC officials in bilateral, regional, and international consultations with officials from countries including Japan, China, Korea, India, Mexico, France, Germany and the United Kingdom.
  - Coordinated and administered the International Visitors Program, hosting 135 meetings for over 700 visitors from 66 different countries.

- Work to inform American consumers about their rights and responsibilities in the competitive communications marketplace:
  - Vigorously enhanced its consumer education and outreach program to provide consumers with information about the transition from analog to digital television (DTV) by developing DTV informational materials and distributing them to consumers and the media.
  - Actively participated in a host of consumer and industry events, and hosted town hall meetings entitled “Ask the FCC.”

- Enforce the Commission’s rules for the benefit of consumers:
  - Addressed a backlog of Junk Fax and Do Not Call consumer complaints filed before December 31, 2006, reviewing more than 57,000 Junk Fax complaints and 56,000 Do Not Call complaints. The Commission reviewed 100% of the backlogged complaints.
  - Responded to more than 128,000 consumer complaints on a variety of topics, including cable and satellite services, radio and television broadcasting, and wireline and wireless telecommunications.
  - Instituted a policy whereby all consumers submitting complaints and inquiries must receive an initial response from the Commission within 20 days of receipt.
  - Created a new form for telemarketing complaints, making it easier for consumers to file complaints and helping to improve processing times.
  - Took 213 actions involving monetary forfeitures or payments negotiated through consent decrees for violations of FCC rules. These included issuing 197 Notices of Apparent Liability (NAL) in the amount of $12,132,350, and negotiating 16 pre-NAL consent decrees in the amount of $14,668,600.
  - Issued 412 citations and 21 Notices of Apparent Liability totaling $5,325,000 against violators of the Junk Fax Protection Act. This represents more than a nine-fold increase from the 45 citations issued in FY 2006, and nearly three times the number of citations issued to junk fax violators in 2003 through 2006 combined.
  - Issued 386 citations, and one forfeiture order in the amount of $748,000, for violations of the do-not-call registry rules and requirements. This represents more than a hundred-fold increase from the three citations issued in FY 2006.
  - Issued an order requiring a carrier to pay more than $2.7 million in damages plus prejudgment interest in a payphone compensation dispute brought on behalf of payphone service providers.

- Issued its first enforcement actions for violations of the digital wireless handset hearing aid compatibility requirements.
- Strengthened its rules to protect the privacy of Customer Proprietary Network Information (CPNI) that is collected and held by providers of communications services. The Commission issued 19 Notices of Apparent Liability in the total amount of $1,500,000 for CPNI-related apparent violations, and entered into a $350,000 consent decree with a company for a CPNI-related violation.

**FY 2007 Accomplishments in Spectrum:**

- Ensure that the Nation's spectrum is used efficiently and effectively:
  - To create a more open wireless platform to facilitate innovation and investment, required as part of the rules for the upcoming auction that commercial licensees for the 22-megahertz Upper 700 MHz C block allow customers, device manufacturers, third-party application developers, and others to use any device or application of their choice on their networks in this band, subject to certain conditions.
  - Modified power limit rules for the commercial spectrum to enable higher power signals from wider band technologies and allow 700 MHz licensees operating in rural areas to more easily implement their systems.
  - Revised Commission rules to reduce regulatory burdens for licensees subject to involuntary relocation from the 18.3-19.3 GHz band pursuant to the Commission's reallocation of that band for exclusive satellite services use.
  - Decided to permit fixed low power devices to operate in the television broadcast bands on channels not being used for authorized services (white spaces) after the transition to digital television is complete.
  - Evaluated approximately 200 applications for new or modified NCE FM construction permits that will bring new or improved service to 76 communities.
  - Initiated a proceeding to propose rule changes to Part 90 and related Commission rules and sought comment regarding particular changes to the rules governing the 4.9 GHz band and the Wireless Medical Telemetry Service which shares spectrum with Part 90 operations.
  - Investigated complaints about unauthorized and technically non-compliant radio frequency devices. Issued a $1 million forfeiture for the marketing of at least 50 models of unauthorized digital audio devices, such as mixers, amplifiers, and digital effects processors. Proposed forfeitures totaling $225,000 for the marketing of unauthorized or non-certified police radar jammers, radio transceivers, and external radio frequency power amplifiers.
  - Investigated more than 1,100 complaints of unauthorized harmful interference. Initiated an investigation into FM modulators, including portable satellite radio receivers with built-in FM transmitters.
  - Held five spectrum auctions during FY 2007 with net winning bids exceeding $162 million. 183 bidders participated in the auctions. 293 licenses were awarded, nearly half of which (143) went to small businesses and new broadcast entrants.
  - In the 1st Quarter of FY 2007, the majority of the licenses for the AWS Auction were granted and the related funds were transferred to the U.S. Treasury faster than in any previous auction.

- Advocate U.S. spectrum interests in the international arena:
  - The Commission, State Department, and other U.S. government agencies, with the advice and recommendations of the WRC-07 Advisory Committee, developed U.S. proposals for the 2007 World Radiotelecommunications Conference (WRC-07) which Commission

staff have advocated in several key negotiations. The Commission's goal for WRC-07 is to secure international spectrum allocations for new services and protect incumbent services from interference.
  - Worked to secure spectrum and minimize interference through advocacy in bilateral, regional, and international consultations, coordinations, and study groups.
  - Provided detailed technical analysis of potential interference between U.S. and Canadian television stations in the development of the new digital TV allotment plan.

**FY 2007 Accomplishments in Media:**

- Facilitate the transition to digital television (DTV) and further the transition to digital radio:
  - Proposed a new DTV Table of Allotments, providing all eligible stations with their final channel assignments for DTV operations after the DTV transition.
  - Adopted an order obligating cable operators to carry local digital broadcast television signals after the conclusion of the DTV transition.
  - Adopted disclosure requirements for sellers of television receiving equipment without a digital tuner to disclose at the point-of-sale that such devices include only an analog tuner and therefore will require a converter box to receive over-the-air broadcast television after February 17, 2009.
  - Adopted rules that obligate cable operators to carry local digital broadcast television signals after the conclusion of the DTV transition. These rules will reduce the number of consumers who will require a converter box to view broadcast signals post-transition.
  - Vigorously enhanced its consumer education and outreach program to provide consumers with information about the transition from analog to digital television, to help them better understand new technology, terminology and products, and on what to do to be prepared for the February 17, 2009 analog cut-off date.

- Reevaluate media ownership rules in light of a changing marketplace and judicial review:
  - Section 202(h) of the Telecommunications Act of 1996 requires the Commission to periodically review its broadcast ownership rules and to modify or eliminate those rules it finds no longer to be "necessary in the public interest as a result of competition." In order to fully involve the public in the review process, the Commission held public hearings in Los Angeles, Nashville, Harrisburg, Tampa and Chicago.
  - Procured or conducted ten economic studies as part of the Commission's review of its media ownership rules. On July 31, 2007, the Commission issued a public notice releasing the media studies and seeking comment on the results.
  - Conducted a Localism Hearing in Portland, Maine. The purpose of the hearing was to gather information from consumers, industry, civic organizations, and others on broadcasters' service to their local communities.

- Enforce compliance with media rules:
  - Inspected 1,119 stores and websites and issued over 260 citations notifying retailers of their violations of the Commission's rules governing labeling of analog-only television equipment.
  - Issued the first enforcement actions for violations of DTV tuner requirements, which proposed over $2.9 million in total forfeitures for the importation or shipment interstate of non-DTV-compliant television receivers.
  - Settled by consent decrees payola investigations involving four major broadcast licensees. The settlements included the imposition of conditions and the adoption of certain business practices intended to improve compliance, as well as contributions by the four entities totaling $12.5 million.

- Notices of Apparent Liability totaling $455,500 were issued to television stations for failure to comply with the children's programming requirements.

**FY 2007 Accomplishments in Public Safety and Homeland Security:**

- Promote the reliability, security, and survivability of the communications infrastructure:
  - Completed all actions to establish the Public Safety and Homeland Security Bureau (PSHSB) to provide an efficient, effective and responsive organizational structure to address matters related to public safety, homeland security, emergency management and preparedness, and disaster management.
  - On September 11, 2007, the PSHSB launched the automated Disaster Information Reporting System (DIRS). DIRS is a voluntary system that communication companies can use to report infrastructure status and situational awareness information during times of crisis. It will streamline the reporting process and enable communications providers to share network status information with the Commission quickly and efficiently.
  - Worked with FEMA in 14 hurricane-prone states and two territories to develop state emergency communications plans in advance of the 2007 hurricane season.
  - Adopted the recommendations of the *Independent Panel Reviewing the Impact of Hurricane Katrina on Communications Networks*, beginning a series of initiatives designed to improve disaster preparedness, network reliability and resilience, and communications among emergency responders.
  - Assisted in drafting and editing several federal government emergency preparedness documents.
  - Trained more than 150 federal, state, and local emergency communications officials to organize, establish and maintain the communications capabilities necessary for responding to and recovering from emergencies and disasters.
  - Coordinated with other federal, state, and local agencies to conduct a two-day workshop on public safety communications on tribal lands in Polson, Montana.
  - Worked to amend existing Bilateral Agreements with both Canada and Mexico to facilitate the Commission's 800 MHz transition which is essential to ensuring interoperability among public safety systems and to protect such systems from interference.
  - Collaborated with the State Department and Department of Homeland Security to find solutions to allow U.S. public safety entities and Mexican security officers to continue to communicate across the border for homeland security purposes.
  - Entered into a consent decree with Verizon concerning allegations of possible violations of Part 4 of the Commission's rules regarding the reporting of network outages. Verizon agreed to pay $1.4 million and develop a compliance training program as well as internal controls to improve outage reporting.
  - Enforced FCC rules governing E911, resulting in contributions by four entities to the U.S. Treasury totaling approximately $800,000.
  - Investigated and resolved over 600 interference or other complaints related to public safety communications.
  - Took 17 enforcement actions regarding its Emergency Alert System rules, totaling nearly $200,000.
  - Granted the requests of the American National Red Cross and permanently assigned the numbers 1-800-RED-CROSS and 1-888-RED-CROSS to that organization.

- Facilitate deployment of public safety technology:
  - Continued to monitor deployment of wireless E911 and Mobile Satellite Service E911 call centers. According to the National Emergency Number Association, as of July 2007,

more than 76% of the total PSAPs in the country are receiving Phase II E911 location information from at least one carrier.
    - Revised the Commission's Emergency Alert System (EAS) rules as part of a continuing effort to provide the American public a state-of-the-art national EAS and to comply with the President's Public Alert and Warning System Executive Order (EO 13407).
    - In the Warning, Alert and Response Network Act (WARN Act), Congress mandated the establishment of the Commercial Mobile Service Alert Advisory Committee. The Commission established the committee, and organized and hosted the first committee meeting within 60 days as required by the WARN Act.
    - Created a Public Safety Clearinghouse on its web site, providing examples of emergency communications plans developed and implemented by state governments, law enforcement agencies, health care facilities and first responders. The plans highlight best practices in the field of emergency communications.
    - Continued to actively oversee the implementation of the 800 MHz rebanding effort to free this spectrum for use by public safety and homeland security officials.
    - Hosted a First Responders Summit: Interoperable and Reliable Public Safety Communications, including an open roundtable forum for participants to raise key issues related to emergency preparedness and response.
    - Held a summit on Spectrum Policy and Management: Building Public Safety Communications, including discussion of issues related to the creation, implementation and management of public safety spectrum, as well as the benefits of enhancing public/private partnerships to support a nationwide interoperable public safety communications network.
    - Worked with the National Association of Regulatory Utility Commissioners (NARUC) Ad Hoc Critical Infrastructure Committee on an initiative to help the country prepare for natural, intentional, or accidental threats to critical telecommunications infrastructure.

**FY 2007 Accomplishments in Modernizing the FCC:**

- Become an easier organization to do business with by integrating systems, processes, and interfaces:
    - Implemented improved consumer complaint form to make filing complaints over the Internet easier and more effective.
    - Harmonized Junk Fax and Do Not Call consumer complaint guidance to make filing complaints easier for the public.
    - Created interactive, on-line forms for the public to use to register for FCC-sponsored fora and events, thereby reducing the logistical burden of taking registration information by phone.
    - Developed a single on-line resource for hurricane emergency information that provides critical information to consumers, communications entities, and state and local governments in areas affected by hurricanes.
    - Enhancements were made to the Commission's Universal Licensing System (ULS) to support the authorization activities of the new Public Safety and Homeland Security Bureau.
    - Deployed the new Frequency Assignment Coordination System, supporting the coordination process between the FCC and National Telecommunications and Information Administration for frequency assignment requests that might potentially cause interference with Federal Government frequency users.
    - Reengineered the FCC's Children's Television (KidVid) database system to support implementation of electronic filing of station information on children's television programming aired on digital program streams.

- Started to deploy enhancements to the Integrated Spectrum Auction System in order to implement tiered package bidding in anticipation of the upcoming 700 MHz auction.

- Create and sustain an organizational culture that encourages innovation, accountability, and continual improvement:
  - Applied a systematic methodology to document and analyze the Commission's current financial processes; coordinated with OMB on its acquisition plans; and released its solicitation for proposals for a new core financial system.
  - Continued efforts to improve the Commission's internal controls and financial management.
  - Issued 12 directives providing policy direction in critical areas of the Commission operations. These included policies for detecting and deterring fraud, measuring and assessing performance, information security, the management of non-public information, prompt payment procedures, and administrative control of funds.
  - The Commission continued its focus on closing findings and weaknesses identified by the Office of Inspector General and its auditors. As of October 1, 2006, there were 163 open OIG and GAO recommendations. During FY 2007, the Commission closed 63% of those recommendations that were open as of October 1, 2006. In total for the year, the Commission completed action on 126 OIG or GAO recommendations.
  - Obtained full certification of the Commission's SES pay-for-performance system from the Office of Personnel Management for 2007 and 2008.
  - Completed the final version of the Commission's Strategic Human Capital Plan.
  - Executed a memorandum of understanding (MOU) with the Universal Service Administrative Company (USAC). This MOU requires USAC to provide enhanced reporting about its internal control environment and establishes new performance metrics for USAC's operations that the Commission will monitor.
  - Significantly revised and updated the FCC's IT Strategic Plan.
  - Created an IT Tactical plan to prioritize, track and monitor progress on all FCC IT initiatives, from maintenance through new systems development and hardware deployment.
  - As part of the FCC's lifecycle replacement program, completed replacement of the personal computers for all of the Commission's standard users.

- Ensure effective communications with consumers, Congress, the communications industry, and Federal, State, tribal, and local agencies:
  - The Commission's web site ranked in the top ten in an analysis of more than 50 Federal web sites by the Taubman Center for Public Policy at Brown University. The Commission also earned the seventh-highest score in a University of Pennsylvania Law School study of ease of access to regulatory information on 89 Federal Government web sites. The FCC web site received well over 200 million page views in FY 2007.
  - Developed on its Lifeline Across America web site a streaming, captioned video concerning the Lifeline and Link-Up programs, how to determine eligibility for the programs, and how to apply. Lifeline and Link-Up are programs that help ensure that all Americans have access to telephone service.
  - Developed a web-based method of presenting and maintaining information mandated by the Office of Management and Budget concerning the Homeland Security Presidential Directives, peer-review of a variety of FCC information products, and the Commission's active solicitations for contracts. This provides an increased level of transparency for FCC business operations.

- Improved the public's access to Commission information by implementing six improvements to the FCC Freedom of Information Act (FOIA) program that were identified in response to Executive Order 13392.
- Continued a strong commitment to protecting the privacy rights of individual stakeholders, employees, and contractors by ensuring that 100% of employees and contractors were formally trained regarding their privacy obligations.

## *FINANCIAL HIGHLIGHTS*

### *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. The following is a brief analysis of the principal statements.

### Consolidated Balance Sheet

| | **FY 2007 (Dollars in thousands)** | **FY 2006 (Dollars in thousands)** | **FY 2005 (unaudited) (Dollars in thousands)** |
|---|---|---|---|
| Total Assets | $6,584,351 | $9,843,444 | $7,717,243 |
| Total Liabilities | $1,120,448 | $4,631,723 | $3,283,017 |
| Total Net Position | $5,463,903 | $5,211,721 | $4,434,226 |

The Commission's most significant assets are Fund Balance with Treasury of $460 million, Investments of $5,012 million, and Accounts Receivable of $755 million. Together, these balances accounted for 95% of total assets as of September 30, 2007.

The large Investments balance of $5,012 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 USF has $3,383 million in Schools and Libraries and Rural Health Care commitments against this balance as of September 30, 2007.

The Accounts Receivable balance of $755 million is primarily composed of USF receivables totaling $735 million.

The Commission's most significant liabilities are debt of $106 million, Deferred Revenue of $92 million, Custodial Liability of $256 million, and Accrued Liabilities for Universal Service of $482 million, which accounted for 84% of total liabilities as of September 30, 2007. All of the debt is owed to Treasury for borrowing related to credit reform installment loans. The deferred revenue is a combination of $49 million being held by the Commission and $43 million being held by the USF and NANP. The Commission's portion of deferred revenue is primarily for Multi-Year Regulatory fees being recognized over time, and down payments paid towards winning bids on licenses that are in the process of being granted. The USF and NANP portion represents annual contributions paid at the beginning of the program funding year (July) that are being drawn to revenue over the course of the year.

The Custodial Liability balance is primarily for Auction receipts and receivables that will either be used by the FCC to cover future auction costs or transferred to the Treasury general fund. The accrued liabilities for Universal Service represent the expected October (FY 2008) payments for the Telecommunications Relay Service and the High Cost and Low Income programs.

Net position consists primarily of the balance contributed by the Cumulative Results of Operations, which was $5,446 million as of September 30, 2007, and accounted for 99.7 % of Net Position. The USF component comprises $5,194 million, most of which is derived from the carryover situation discussed above as related to the $5,012 million investment balance.

## Consolidated Statement of Net Cost

| | **FY 2007 (Dollars in thousands)** | **FY 2006 (Dollars in thousands)** | **FY 2005 (unaudited) (Dollars in thousands)** |
|---|---|---|---|
| Net Cost of Operations | $7,337,710 | $7,330,203 | $6,567,681 |

The Consolidated Statement of Net Cost is aligned with the six strategic goals of the Commission. 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 Commission'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 Commission's net cost of operations for FY 2007 was $7.3 billion, of which $7.5 billion correlates to component entities whose funds are restricted for NANP and USF programmatic activities only, and cannot be used by the Commission. The $7.3 billion is allocated between the Commission and the two components as follows:

| **Component** | **Net Cost of Operations** |
|---|---|
| FCC | $ (150,991) |
| NANP | $ (169) |
| USF | $7,488,870 |

## Consolidated Statement of Changes in Net Position

| | **FY 2007 (Dollars in thousands)** | **FY 2006 (Dollars in thousands)** | **FY 2005 (unaudited) (Dollars in thousands)** |
|---|---|---|---|
| Unexpended Appropriations | $17,554 | $17,843 | $24,617 |
| Cumulative Results of Operations | $5,446,359 | $5,193,878 | $4,409,609 |

The total Net Position increase of $252 million since September 30, 2006 is attributed mostly to the $82 million increase in USF Cumulative Results of Operations which stems from the continued collection of receipts greater than disbursements, and the $171 million increase in Commission Cumulative results of Operations which stems from the net downward reestimate of $150 million.

### Combined Statement of Budgetary Resources

| | FY 2007 (Dollars in thousands) | FY 2006 (Dollars in thousands) | FY 2005 (unaudited) (Dollars in thousands) |
|---|---|---|---|
| Total Resources | $11,633,722 | $11,199,260 | $11,611,391 |
| Appropriations Received | $7,793,793 | $ 8,306,644 | $9,899,436 |
| Obligations Incurred | $9,886,030 | $8,934,108 | $10,537,828 |

Appropriations received in FY 2007 consisted of $1 million for FY 2007 Salaries & Expenses (S&E) that is net of a $290 million regulatory fee offset and $31 million for credit subsidy. The USF accounts for the remaining $7,762 million.

### Consolidated Statement of Custodial Activity

| | FY 2007 (Dollars in thousands) | FY 2006 (Dollars in thousands) | FY 2005 (unaudited) (Dollars in thousands) |
|---|---|---|---|
| Custodial Liability | $ 256,223 | $ 152,036 | $ 222,350 |

The Commission reported $13,988 million of custodial revenue as of September 30, 2007. The primary source of this revenue was auctions revenue of $13,905 million. The AWS Spectrum auction accounted for $13,700 of the auctions revenue. The remaining revenue was as follows: credit reform represents $33 million, auction interest represents $12 million, and fines and penalties represent $38 million. In FY 2007 the Commission transferred $6,937 million to Treasury and $6,850 million to the Spectrum Relocation fund. The Commission also retained $85 million to support the Auctions program and $12 million for transfer to the TDF. The net of this activity accounts for the increase of $104 million in the custodial liability balance from FY 2006 to FY 2007.

### Other Key Financial Statement Highlights

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

The Commission's FY 2008 subsidy reestimate was completed to reflect the actual loan performance through August 31, 2007 and projected performance through September 30, 2007. The reestimate resulted in a net downward adjustment (increase in the subsidy cost), including interest on the reestimate, totaling $150 million in the Spectrum Auction program.

This reestimate is reported in the Commission's FY 2007 financial statements, but will not be reported in the budget until FY 2008. For more details, see financial statement Footnote 7 in Chapter 3.

### *Regulatory Fee Collections*

Section 6003(a) of the Omnibus Budget Reconciliation Act of 1993, P.L. 103-66, added a new Section 9 to the Communications Act. The law requires that the Commission 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 Commission is required to recover is included in the Commission's annual appropriations.

Regulatory fees are collected and warranted back to the Treasury to offset the Commission's appropriations for the current fiscal year. In FY 2007, the Commission was required to collect $290 million in regulatory fees. The Commission actually collected $296 million.

### *Possible Future Effects of Existing Events and Conditions*

The last active loans in the Commission's spectrum auction loan program were repaid during FY 2007. In conjunction with this event, the Commission generated the FY 2008 subsidy reestimate using a balances approach designed to align the Commission's outstanding debt to Treasury with the projected remaining cashflows for the program. The generation of the remaining cashflows is dependent upon the outcome of bankruptcy proceedings, settlement efforts, and Treasury collection efforts on remaining loans, which are all either in a bankruptcy or default status.

In addition to the discussion of the loan program above, the Commission 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.

### *Limitations on the Financial Statements*

The principal financial statements have been prepared to report the financial position and results of operations of the Federal Communications Commission (Commission), pursuant to the requirements of 31 U.S.C. § 3515(b). While the statements have been prepared from the books and records of the Commission in accordance with generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by Office of Management and Budget (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 United States (U.S.) Government, a sovereign entity.

# *Legal Compliance, Systems, and Controls*

## *LEGAL COMPLIANCE*

Like other Federal agencies, the Commission 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 Commission's efforts to comply with applicable legislation, regulations, and guidance. As described in the following sections on Systems and Internal Control, the Commission continues to improve its management controls.

## *SYSTEMS*

### *Federal Information Security Management Act of 2002 (FISMA)*

FISMA focuses on program management, implementation, and evaluation of the security of non-national security and national security information systems. 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 security and national security information systems.

Risk Assessment

Risk assessments are an integral aspect of the Commission's security tests and evaluations (ST&Es) that support the certification and accreditation (C&A) process. The ST&Es have been completed for all 12 major applications and ten general support systems. Currently, eight applications are going through the C&A process, one as a replacement application and seven due to major changes or re-certification. The C&A's should be current by the end of the first quarter of 2008.

Security Training

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

- New user information security orientation training;
- Quarterly training;
- Annual training;
- Mandatory training on the Privacy Act;
- 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. In addition to providing training, the Commission reached 100% compliance on the number of employees who signed an acknowledgement that they have read and understand the rules of behavior for Commission computer use before being authorized access to Commission information systems.

<u>Continuity of Operations and Disaster Recovery Plan</u>

The Commission has implemented a full Continuity of Operations Plan (COOP). Additionally, the Commission has implemented an Information Technology Disaster Recovery Plan (IT DRP). The IT DRP establishes thorough plans and procedures and technical measures that allow the Commission's network and applications to be recovered quickly and effectively following a service disruption or disaster. The Commission successfully tested its COOP during the May 2007 Pinnacle exercise.

<u>Security Planning</u>

As required by OMB Circular A-130, Appendix III and FISMA, the Computer Security Program (CSP) has developed and maintains system security plans (SSP) for the Commission's general support systems and its 12 major applications. 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.

<u>Computer Security Incident Response</u>

The CSP coordinates response efforts to all Commission computer security incidents in accordance with the Department of Homeland Security (DHS) United States Computer Emergency Readiness Team (US-CERT) and NIST guidance. The newly-established Network Security Operations Center (NSOC) handles security events which include attempted denial of service attacks, computer malicious code (i.e., virus) infections, unauthorized system access, improper use, scans and probes, lost IT-related devices, and other related IT security matters. The CSP works with the Office of Inspector General and external agencies such as DHS US-CERT and the Federal Bureau of Investigation. To help Commission 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. The CSP, through its NSOC, is also actively involved in several Government-wide fora to proactively identify and remediate vulnerabilities against emerging cyber security threats.

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

### *Privacy Act*

The Commission continued its efforts in FY 2007 to fully comply with both the existing requirements of the Privacy Act, as amended, as well as the emerging OMB policies on personally identifiable information. As an example, in FY 2007 the Commission developed a breach notification policy for both electronic and paper-based breaches of personally identifiable information, reduced the use of Social Security Numbers to only those instances in which parties outside the Commission still require the use of such numbers, reviewed the Commission's Privacy Act systems of records and identified new and revised systems of records that are needed, and established a policy regarding consequences to employees if they fail to properly protect personally identifiable information.

## *INTERNAL CONTROL*

In accordance with OMB Circular A-123, the Commission maintains internal control for financial and management 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 the Commission's 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, the Commission's internal controls provide for the existence and completeness of its performance measures, as required by OMB Circular A-136.

The Commission received an unqualified opinion on its financial statements in FY 2006. In conjunction with that opinion, the independent auditors provided the Commission with a report on internal controls. The independent auditors' report identified no material weaknesses in internal control at the Commission for FY 2006. This result was the first time that the Commission had received both an unqualified audit opinion and internal control report that identified no material weaknesses. The report on internal control did include seven reportable conditions in the following areas: financial reporting, component entities' financial reporting controls, Commission oversight of the component entities' activities, cost accounting, payroll and personnel activities, DCIA compliance, and compliance with OMB Circular A-130. Throughout FY 2007, the Commission worked diligently on closing the audit findings from the FY 2006 audit as well as findings from previous audits. The Commission made significant progress on resolving dozens of recommendations; further details on these figures are provided below.

Furthermore, the Commission went beyond the baseline internal control requirements of OMB Circular A-123 and established a Senior Management Council to strengthen its efforts to assess risk to the Commission's operations. During FY 2007, the Commission engaged in a systematic risk assessment process of its operations. The results of the risk assessments were analyzed by the Commission's Senior Management Council and activities are underway to remediate any control deficiencies that were identified as a result of the risk assessments.

### *Government Performance and Results Act of 1993 (GPRA)*

The Government Performance and Results Act 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, during FY 2006, the Commission reviewed and made revisions to its strategic plan for FYs 2006-2011. This plan remained in effect in FY 2007. The agency further fulfills its GPRA obligations in accordance with OMB guidance in two ways. The Commission develops performance budgets, which incorporate the Commission's annual performance plan, and the Commission integrates its annual performance report into Chapter 2 of this report.

### *Performance Data Completeness and Data Reliability*

The performance data presented in this report are complete and reliable, as defined in OMB guidance. The Commission is dedicated to properly and effectively managing its mission and resources. The Commission 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). Furthermore, the Commission issued a new directive for collecting data for performance measurement that strengthens the Commission's existing methods for certifying reliability by reiterating the Commission's strong policy against fraud. In general, data sources are internal reports generated by various Commission bureaus and offices,[6] which often combine internally generated data and externally provided data from government surveys, such as the Current Population Survey, and industry data.

### *Program Evaluations*

The Program Assessment Rating Tool (PART) is the primary means that OMB uses to evaluate the Commission's programs. As a result of OMB direction on PART, the following Commission programs have been subject to PART analysis:

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

Additionally, as part of its program of internal controls, the agency continued to take steps in FY 2007 to strengthen the Commission's internal controls and to adhere to the requirements of OMB Circular A-123. The Commission's Senior Management Council (SMC) and Senior Assessment Team directed Commission staff to continue to conduct targeted risk assessments in areas the SMC determined to be of the greatest concern. The Commission also sustained its strong emphasis on resolving findings from past audits, instituted additional financial tracking procedures, and continued to improve upon its contracting processes by making better use of performance based incentives in its acquisitions. Furthermore, many of the Commission's controls were tested by outside auditors conducting performance audits under the supervision of the Commission's Office of Inspector General.

Finally, during FY 2007 the Commission provided input to five reports issued by the U.S. Government Accountability Office (GAO). The GAO reports were:

1. *Telecommunications: FCC Needs to Improve Its Ability to Monitor and Determine the Extent of Competition in Dedicated Access Services (GAO-07-80);*

2. *Telecommunications: Issues Related to the Structure and Funding of Public Television (GAO-07-150);*

3. *Emergency Preparedness: Current Emergency Alert System Has Limitations, and Development of a New Integrated System Will Be Challenging (GAO-07-411);*

4. *Reexamining Regulations: Opportunities Exist to Improve Effectiveness and Transparency of Retrospective Reviews (GAO-07-791); and*

5. *Telecommunications: FCC Should Take Steps to Ensure Equal Access to Rulemaking Information (GAO-07-1046).*

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

### *Treasury Performance Measures Summary*

The Department of the Treasury uses a scorecard with four key performance indicators and eleven underlying performance goals to assess agency compliance with its government-wide financial reporting requirements, including reporting on intragovernmental activity. The four performance indicators include timeliness, reconciliation of unexplained differences, consistency/integrity, and completeness. The Department of the Treasury has communicated to the Commission that for FY 2006, the Commission successfully met Treasury's targets for all of the performance goals on the Treasury scorecard. This result improves upon the strong scorecard the Commission received in FY 2005 when it met all of Treasury's performance elements except one. Because the FY 2007 information will not be available until after the FY 2007 PAR is submitted, the Commission is reporting on FY 2006 at this time. The Commission will report on its results on the FY 2007 Treasury scorecard in its FY 2008 PAR.

### *Action on Office of Inspector General (OIG) Audit and Government Accountability Office (GAO) Recommendations*

As of October 1, 2006, there were 163 open OIG and GAO recommendations. During FY 2007, the Commission closed 63% of those recommendations that were open as of October 1, 2006. In total for the year, the Commission completed action on 126 OIG or GAO recommendations. As of the end of FY 2007, 71 recommendations older than one year remained open. The Commission plans to close a large majority of these recommendations during FY 2008.

### *Debt Collection Improvement Act of 1996 (DCIA)*

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.

On October 1, 2004, the Commission updated its debt collection rules and requirements to incorporate rules regarding delegated authority, administrative wage garnishment, and denial of a benefit to delinquent debtors (known as the Red-Light rule). Prior to implementation, the Commission conducted a series of outreach discussions to inform the public and internal Commission 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 Red-Light rule to allow more opportunity to resolve issues. As of November 1, 2004, the Commission began enforcement of the Red-Light rule. All licensing systems and bureaus/offices within the Commission check for delinquent debts before issuing a license or permit, or granting a license. In FY 2007, the Commission transferred 6,585 outstanding debts totaling $68.7 million for accounts and loans receivable to the Department of the Treasury.

## *Improper Payments Information Act of 2002 – Narrative Summary of Implementation Efforts for FY 2007*

The Improper Payments Information Act (IPIA) requires Federal agencies to report annually on the extent of improper payments in the programs it administers and on actions taken to reduce such payments. After the requirements of IPIA went into effect, the Commission conducted a complete inventory of its programs that make disbursements. The Commission identified eight programs for analysis. During FY 2007, the Commission re-evaluated these eight programs. Based on the Commission's and independent auditors' evaluations of disbursements from these eight programs, there are two programs, the Universal Service Fund's (USF) Schools and Libraries Program and the High Cost Support Program, that continue to have sufficient volume and error rates to warrant further investigation and monitoring. In prior reviews of its programs, the Commission had identified these two programs as susceptible for significant improper payments based on the information available. Further testing and analysis by the Commission's Office of Inspector General (OIG) confirmed the Commission's belief. The OIG's testing and analysis also resulted in the identification of a third USF program, the Low Income program, as being at risk for significant improper payments. The Commission's OIG has additional information about the results of its testing and analysis of all of the USF programs on its website at: http://www.fcc.gov/oig/.

To develop the improper payment estimates, audits were conducted of disbursements made to USF beneficiaries. The results of the audits showed various instances of non-compliance with the Commission's rules concerning USF. The Commission understands that a significant area of concern raised by the auditors was a lack of documentation which the auditors could use to determine whether the beneficiaries were complying with the Commission's rules. Since the time of the disbursements which were tested in this round of audits, the Commission adopted rules, most recently in August of 2007, to strengthen the document retention requirements applicable to the USF programs. The Commission is interested in pursuing tests of disbursements that were made after these requirements went into effect to determine whether lack of documentation remains a concern.

In the near term, the Commission has directed the USF Administrator, the Universal Service Administrative Company, to recover all improper payments identified by the auditors and to develop corrective action plans for all recommendations put forth by the auditors within 60 days. With respect to USF recoveries, the Commission established a self-executing recovery mechanism with the USF Administrator. Thus, to the extent improper payments are uncovered, the USF Administrator is required to initiate recovery of the improperly disbursed funds shortly after completion of the final audit report.

### *Management Assurances - Federal Managers' Financial Integrity Act of 1982 (FMFIA)*

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes overall requirements with regard to internal control. FMFIA requires agencies to establish controls that reasonably ensure that: (i) obligations and costs are in compliance with applicable law; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets. Pursuant to FMFIA's requirements, agencies must evaluate annually their system of internal controls and report annually on the results of those evaluations through management assurance statements.

## Statement of Assurance

The Commission's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of FMFIA. The Commission conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB's Circular A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Commission can provide reasonable assurance that its internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulation as of September 30, 2007 were operating effectively and no material weaknesses were found in the design or operation of internal controls. This is only the second time the Commission has been able to provide the preceding assurance, the first time being in FY 2006. In addition, with the exception of the instances of non-conformances with government-wide financial systems requirements discussed below, the Commission can provide reasonable assurance that its financial management systems meet the objectives of FMFIA.

Kevin J. Martin
Chairman
November 15, 2007

## **Status of Internal Controls – Section 2 of FMFIA**

During FY 2007, the Commission furthered its efforts to improve and strengthen its internal controls. The Commission conducted systematic risk assessments of its operations. The results of the risk assessments were analyzed by the Commission's Senior Management Council and activities are underway to remediate any control deficiencies that were identified as a result of the risk assessments. Also throughout FY 2007, the Commission worked diligently on closing audit findings from previous audits and made significant progress on resolving the reportable conditions that were reported by the Commission's auditors in the FY 2006 *Independent Auditor's Report on Internal Control over Financial Reporting*. There were no material weaknesses noted in the independent auditor's report for FY 2006. Furthermore, the Commission has not identified any material weaknesses in its internal controls that were in place during FY 2007. Hence, the Commission is able to provide reasonable assurance for FY 2007 as stated in the above assurance statement.

## **Financial Management Systems – Section 4 of FMFIA**

Section 4 of FMFIA requires agencies to annually evaluate whether the agency's financial management systems conform to government-wide requirements. These financial systems requirements are included in Section 7 of OMB Circular A-127, *Financial Management Systems*. If the agency's systems do not substantially conform to financial systems requirements, agencies must report the non-conformances and discuss the agency's plans to bring the systems into substantial compliance.

As noted by the Commission's auditor, the Commission's financial management systems do not substantially conform to government-wide requirements. The auditors noted the following two non-conformances: the Commission lacks a fully integrated financial management system and the Commission needs to ensure that the functionality of its financial systems fully complies with Federal requirements.

The Commission is currently relying on a core financial management system that is becoming obsolete and will not be supported by its vendor in the long term. During FY 2007, the Commission used a systematic methodology to document and analyze its current financial processes. This analysis provided the Commission with the insight it needed to identify areas for potential process reengineering and to define its needs for a new financial system. Building upon this analysis, the Commission developed an acquisition and implementation strategy to move to a new core financial management system that will best meet the Commission's business needs and will bring the Commission into substantial compliance with government-wide requirements. The Commission released its solicitation for proposals for a new core financial system at the end of FY 2007. At this time, the Commission plans to complete the deployment of the new financial system by October 1, 2009.

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# 2. Program Performance

The FY 2007 performance accomplishments reported in this chapter conform to the strategic and performance goals identified in the FCC's revised strategic plan for FY 2006 - FY 2011. While the revised strategic plan relied heavily upon the prior strategic plan (FY 2003 - FY 2008), there were some changes in focus and emphasis to better reflect the Nation's communications priorities. Thus, as allowed by and acknowledged as likely to happen by both GPRA and OMB Circular A-11, these changes in strategic and performance goals result in performance data that may differ from that reported in previous years under the prior strategic plan.

As with past Performance and Accountability Reports (FY 2004 through FY 2006), the accomplishments reported may cross 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 limited 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.***

Broadband deployment remains a top priority of this agency. Broadband technology drives economic growth by facilitating innovation and access to information, commerce, education, and entertainment. Because broadband changes the way people work, play, learn, and communicate, public demand for faster, more robust broadband services and products has increased, which has led to increased deployment of broadband technologies and applications.

Deployment of developing broadband services that utilize power lines, fiber, and terrestrial and satellite wireless technologies is helping the Commission to ensure that access is not a barrier to adoption of affordable broadband technologies as they become available.

### *FY 2007 PERFORMANCE GOALS*

- Broaden the deployment of broadband technologies.
- Define broadband to include any platform capable of transmitting high-bandwidth intensive services, applications, and content.
- Ensure harmonized regulatory treatment of competing broadband services.
- Encourage and facilitate an environment that stimulates investment and innovation in broadband technologies and services.

### *FY 2007 PERFORMANCE HIGHLIGHTS*

***Broaden the deployment of broadband technologies:***

- Universal Service Initiatives
  - Rural Health Care Mechanism Pilot Program – In September 2006, the Commission released the 2006 *Pilot Program Order*, implementing an enhanced funding initiative intended to help public and non-profit health care providers construct state-wide and region-wide broadband networks to provide telehealth and telemedicine services throughout the nation. To accomplish this, the program will fund up to 85 percent of the costs of constructing these networks, as well as the costs of advanced telecommunications and information services that will ride over these networks. Up to 85 percent of a successful applicant's cost of connecting to Internet2 or National LambdaRail, which are both dedicated nationwide backbones, may also be funded by the Pilot Program. The *2006 Pilot Program Order* generated overwhelming interest from the

health care community, resulting in 81 applications representing 42 states and two U. S. territories.

- RHCP Web Page - The Commission also launched and maintained a dedicated Rural Health Care Pilot Program (RHCP) web page, http://www.fcc.gov/cgb/rural/rhcp.html, that contains all the relevant FCC Orders and news releases, an extensive FAQ section, a slide presentation on the program, and information on all applications received by the May 7th deadline. Through the use of the Consumer Information Registry (CIR), http://www/fcc/gov/cgb/contacts/welcome.html, the Commission sent targeted emails to thousands of subscribers, informing them of RHCP and providing information regarding the application process. In addition, Commission staff members made presentations and distributed information about RCHP at numerous conferences and events, and to audiences such as national and regional health care organizations, the American Telemedicine Association and the National Rural Health Association.
- Schools and Libraries – On October 19, 2006, the Commission released the Eligible Services List for FY 2007 to provide greater transparency for schools and libraries subscribing to broadband services. The Commission added interconnected Voice over Internet Protocol (VoIP) as an eligible service and removed the requirement that an auditable system be in place for applicants to receive funding for Internet access service designed for portable devices. The agency also adopted orders granting more than 700 appeals of decisions of the universal service fund administrator as part of its efforts to ensure that eligible schools and libraries obtain access to discounted telecommunications and information services, including broadband access. Continuing its efforts to protect the USF from waste, fraud and abuse, the Commission, since August 2006, has taken enforcement action against parties convicted of fraud-related felonies against the schools and libraries universal service support mechanism, also known as the E-Rate program. These actions included three debarments from the USF E-Rate program due to criminal convictions and two suspensions from the program. The Commission also increased the number of audits and its oversight over the E-Rate program. A Memorandum of Understanding (MOU) with USAC was adopted to improve management, administration, and oversight.

- Access Broadband over Power Line – The Commission affirmed in large part its 2004 decision for unlicensed operation of Access Broadband over Power Line (Access BPL) systems. Access BPL systems deliver high speed Internet and other broadband services to homes and businesses over utilities' medium voltage lines. Electric utility companies also can use Access BPL devices to monitor and manage various elements of their electric power distribution operations.

- Disability Access – The Commission undertook several actions to improve access to broadband services for persons with hearing and speech disabilities:
  - The Commission clarified that Internet Protocol captioned telephone service (IP CTS) is a type of Telecommunications Relay Service (TRS) eligible for compensation from the Interstate TRS Fund. Clarifying that IP CTS is eligible for compensation from the TRS Fund provides an incentive for multiple providers to offer this service on a nationwide basis, generating competition that will enhance consumer choice, service quality and available features.
  - The Commission extended the disability access requirements of sections 225 and 255 of the Act to providers of interconnected VoIP services and to manufacturers of specially designed equipment used to provide those services. Recognizing that an increasing number of consumers are replacing their traditional Public Switched Telephone Network (PSTN) service with interconnected VoIP service, this item requires interconnected VoIP providers to comply with the Commission's section 225 TRS requirements, including

contributing to the TRS Fund used to support the provision of telecommunications services to persons with speech or hearing disabilities, and offering 711 abbreviated dialing for access to relay services. Interconnected VoIP providers and equipment manufacturers also must ensure that their services are available to and usable by individuals with disabilities, if such access is readily achievable, consistent with section 255 of the Communications Act.

- Consumer Outreach and Education – The Commission developed a comprehensive campaign to help foster broadband development by outreach efforts designed to increase consumer awareness about the benefits and availability of broadband. These outreach efforts include: 1) educating the public about broadband and its benefits; 2) identifying solutions to increase broadband deployment in rural communities; and 3) raising awareness of funding sources for telemedicine and other programs relying on broadband deployment.
  - The Commission's Consumer and Governmental Affairs Bureau (CGB) provides information pertaining to broadband services on its website, http://www.fcc.gov/cgb/broadband.html. The website includes links to numerous broadband-related FCC fact sheets and relevant websites outside the FCC. The Commission's web pages related to broadband received approximately 200,000 page views in FY 2007.
  - CGB responded to 3,039 complaints and inquiries during the past 12 months involving broadband access and services.

- Unlicensed Wi-Fi Operations - In an order resolving a dispute over Wi-Fi operations at Boston-Logan International Airport, the Commission reaffirmed its commitment to promoting the widespread deployment of unlicensed Wi-Fi devices used to provide wireless Internet service. This was the first time that the Commission applied the Over-the-Air Reception Devices (OTARD) rules to unlicensed devices, and thus clarified that consumers and businesses are free to install Wi-Fi antennas in premises under their control under the OTARD rules without seeking approval from their landlords.

- Unlicensed Operations in the 57-64 GHz Band - The Commission initiated a rulemaking proceeding in which it proposed to increase the emission limit and amend other technical rules applicable to certain types of antennas operating on an unlicensed basis in the 57-64 GHz band. The proposed rule changes would allow longer communication ranges for unlicensed point-to-point broadband digital transmitters operating outdoors or located indoors with emissions directed outdoors (*i.e.*, through a window or window links). The proposed rule changes would extend the ability of such systems to supply very high speed broadband service to office buildings and other commercial facilities. This would be useful in environments where obstacles such as highways, parking lots, etc., prevent the extension of fiber or wireline connections, or as a means to provide broadband links or backhaul for an entire building or campus where adding new cables would be too costly.

- Establishment of New Policies and Service Rules for the Broadcasting-Satellite Service in the 17/24 GHz Frequency Band – The Commission issued an order establishing new policies and service rules for 17/24 GHz Broadcasting-Satellites. As a result of this proceeding, a new generation of broadband services will be introduced to the public, providing a mix of local and domestic video, audio, data, video-on-demand, and multi-media services to U.S. consumers. In some cases, these services will complement existing Direct Broadcast Satellite (DBS) services.

- Vehicle Mounted Earth Stations (VMES) – The Commission initiated a proceeding to consider whether to permit the use of Fixed Satellite Service Ku-band satellites to provide broadband mobile service from moving vehicles. The Commission sought comment on a proposed VMES allocation and service rules that would make advanced communications available for the U.S. military, emergency preparedness, and commercial purposes where high-bandwidth mobile communications capabilities would be beneficial.

- Advanced Commission's Broadband Policy in International Fora – Commission staff works in various international fora such as the ITU, CITEL, WRC and OECD to advance the Commission's agenda for broadband by participating in staff level discussions with international policymakers. Commission staff also attended the ITU's Plenipotentiary meeting, during which there were discussions about Internet regulation and policies to advance broadband.

- Contributed to International Analysis of Broadband Deployment – The OECD plans to issue a report in June 2008 pertaining to broadband development in its thirty member countries. At the recent series of OECD meetings that were held in May 2007, the FCC, in concert with the Department of State and Department of Commerce, encouraged OECD to portray a more rich and accurate picture of broadband and to refine their metrics to take into account the demographic and geographic challenges of deploying high fixed-cost infrastructure in countries like the U.S. In the U.S. government contribution, Commission staff highlighted the relevance of population distribution to the cost of broadband development and the role of intermodal competition in the U.S.

- Decisions Relating to Licensing Satellite Broadband – Commission staff granted numerous licenses to facilitate the deployment of satellite broadband.
  - New Earth Station on Vessels (ESVs) Granted – ESVs provide broadband services from vessels. The Commission granted nine new ESVs Licenses.
  - New Very Small Aperture (VSAT) Licenses Granted – The Commission granted 10 new VSAT licenses.
  - Authority to Launch and Operate Global Fixed Satellite Service Granted – The Commission granted Virtual Geosatellite, LLC, authority to construct a satellite system of highly-elliptical, non-geostationary satellite orbit (NGSO) fixed-satellite service satellites to operate in C- and Ku-band frequencies.
  - GUSA Orders – The Commission granted operators authority to operate four earth stations in Florida and three in Alaska, in the 5096-5250 MHz and the 6900-7025 MHz bands, to provide feeder link service for a Big LEO NGSO Mobile-Satellite Service System, thereby allowing more efficient and effective use of this spectrum.
  - New Ka-band Space Station Licenses Granted – On July 18, 2007, Commission staff granted a new space station operator, ViaSat, Inc., authority to operate two new Ka-band satellites. ViaSat indicates that it intends to use these satellites to provide broadband services.

***Define broadband to include any platform capable of transmitting high-bandwidth intensive services, applications, and content:***

- Broadband Reporting
  - The Commission continued its efforts to collect the information it needs to set broadband policy in the future by issuing a Notice of Proposed Rulemaking seeking comment on

ways it might obtain more precise information about broadband deployment and subscribership generally, and about mobile wireless broadband in particular.

  - The Commission collected information concerning small broadband providers operating in rural areas. The agency prepared two statistical reports that provided additional detail about broadband connection speeds and how extensively broadband Internet access services are available via cable modem and digital subscriber line (DSL) technologies.

***Ensure harmonized regulatory treatment of competing broadband services***:

- BPL-Enabled Internet Access – The Commission continued its efforts to develop a consistent regulatory framework across broadband platforms by issuing an order classifying Broadband over Power Line (BPL)-enabled Internet access service as an information service functionally integrated with a telecommunications transmission component. This approach is consistent with the framework that the Commission established for cable modem service and wireline broadband Internet access service.

- Mergers - By approving the merger of AT&T and BellSouth, the Commission increased the incentive and ability of the merged entities to invest in broadband infrastructure and spread the deployment of advanced services to all Americans.

- Classification of Wireless Broadband Internet Access Service – The Commission adopted a Declaratory Ruling finding that wireless broadband Internet access service is an information service under the Communications Act. The Commission's order established a minimal regulatory environment for these services that will promote the Commission's goal of availability of broadband to all Americans. The approach the Commission adopted is consistent with the framework that it established for cable modem Internet access service, wireline broadband Internet access service, and BPL-enabled Internet access service, furthering the Commission's efforts to establish a consistent regulatory framework across broadband platforms by regulating like services in similar manner.

- Pricing Flexibility for Advanced Services – The Commission continued its efforts to promote the availability of broadband to all Americans by granting the requests of AT&T and Qwest for pricing flexibility for advanced services that rely on packet technology. Granting this relief reduced unnecessary administrative and regulatory burdens and served the public interest by promoting competition for advanced services, resulting in more choices and better prices for consumers.

- Intercarrier Compensation for IP Traffic – The Commission continued its efforts to encourage an environment that stimulates investment in broadband by seeking comment on proposals to reform the system of payments between carriers for the origination and termination of communication traffic, including the intercarrier compensation obligations applicable to IP-enabled services.

- VoIP Provider Compliance with Enhanced 911 (E911) Requirements – The Commission continued to monitor the compliance of VoIP providers with its E911 rules. It issued letters to VoIP providers who previously indicated that they were providing E911 service to less than 90 percent of their subscribers to determine the current status of their compliance with the E911 rules.

- Mobile Satellite Service/E911 reports – The Commission continued monitoring of mobile satellite service E911 yearly call center reports.

- Inmarsat Broadband Global Area Network (BGAN) – The Commission coordinated numerous requests with the Department of Justice and the Department of Homeland Security for special temporary authority to provide Inmarsat BGAN service in the United States and granted such requests after conclusion of coordination.

***Encourage and facilitate an environment that stimulates investment and innovation in broadband technologies and services:***

- Advanced Wireless Services (AWS) Auction & Licensing – The Commission completed the auction of 90 MHz of highly valuable AWS spectrum, which can be used to provide a wide array of innovative wireless services, including voice, data, video, and other wireless broadband services offered over 3G and 4G networks. The auction resulted in net winning bids totaling $13.7 billion. By April 2007, 1,086 licenses were issued to the winning bidders in a little over six months from receipt of the license applications. The Commission has established mechanisms for the smooth transition of incumbents in the AWS band to other spectrum bands. Based upon industry and government reports, the relocation process is progressing, which will allow AWS licensees to begin deploying service in this band.

- 700 MHz Band Plan – The Commission modified the band plan for the 698-806 MHz band, which is being recovered as a result of the digital television transition, and established related service rules for commercial and public safety licenses in the band. The service rules will help create a national broadband network for public safety that will address the interoperability problems of today's system, provide for a more open wireless platform that will facilitate innovation and investment, and facilitate the emergence of next generation wireless broadband services in both urban and rural areas. To promote access to spectrum and broadband deployment, especially in rural areas, the Commission adopted a commercial band plan with a mix of geographic service area licenses and spectrum block sizes, and established stringent build-out requirements. To encourage innovation and consumer choice in devices and services, the Commission also established one commercial block in which licensees would be required to enable customers, device manufacturers, third-party application developers and others to use devices and applications of their choice.

- 18 GHz Rechannelization – The Commission revised its rules to reduce regulatory burdens for 18 GHz band terrestrial Fixed Microwave Services that are subject to involuntary relocation to make way for new satellite services.

- 11 GHz Smaller Antenna Proceeding – The Commission issued a Notice of Proposed Rulemaking seeking comment on allowing the use of smaller antennas in the 11 GHz point-to-point microwave band. This band has been identified by several carriers as a prime candidate for providing wireless backhaul to wireless broadband providers. Allowing smaller antennas in the band could facilitate use of the band in urban areas where it is often difficult to place large antennas.

- 3650-3700 MHz Band - The Commission affirmed its 2005 decision to create a spectrum environment in the 3650-3700 MHz band that will encourage multiple entrants and stimulate the expansion of broadband service to rural and underserved areas. The Commission will rely on a non-exclusive licensing scheme, and require operators to use equipment incorporating a contention-based protocol, i.e., technology that permits multiple licensees to share spectrum by ensuring that all licensees have reasonable opportunity to operate without causing harmful interference to each other.

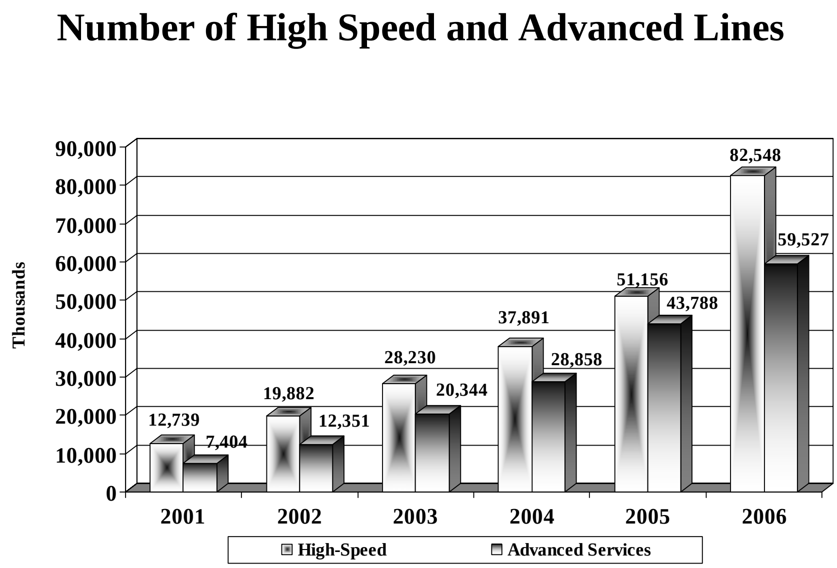
- International Leadership – The Commission provided technical and policy expertise to U.S. delegations to meetings at the ITU, Inter-American Telecommunication Commission (CITEL), and Asia Pacific Economic Cooperation (APEC TEL) on U. S. regulatory policies and rules for IP-enabled services.

- International Forum Participation – Commission staff participated in ITU-R Working Groups studying spectrum engineering techniques and studies related to Broadband Wireless Access and Broadband over Power Line technologies. Agency staff also participated in the Seventh Annual Global Symposium for Regulators (GSR) of over 100 countries organized by the ITU's Development Sector. Commission Staff were included in the U.S. delegation to the ITU's top policy-making body, the Plenipotentiary Conference 2006 held November 6-24, 2006.

- Broadband Radio Service (BRS) and Educational Broadband Service (EBS) – The Commission took further steps to promote competition, innovation, and investment in wireless broadband services and educational services in the BRS/EBS band. The Commission began the process of transitioning BRS and EBS licensees to the new, more flexible BRS/EBS band plan. The Commission also continued the review of its rules to provide greater flexibility to both existing licensees and potential new entrants for BRS and EBS. These actions are designed to encourage the efficient and effective use of spectrum, and the growth and rapid deployment of innovative broadband communications technologies and services.

*FY 2007 PERFORMANCE INDICATORS*

**Increase access to broadband services and devices across multiple platforms**




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 2006,[7] subscribers to high-speed services were present in more than 99% of the zip codes in the United States.[8] There were 82.5 million high-speed lines in service,[9] a 61% increase from the end of 2005. More than 58.2 million of these were assigned to residential and small business subscribers.[10] The number of advanced services lines increased by 36% during 2006 to 59.5 million lines.[11]

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).

ADSL high-speed lines increased during 2006 by 30%, to 25.4 million lines, while high-speed cable modem service lines increased by 21% to 32.1 million lines.[12]

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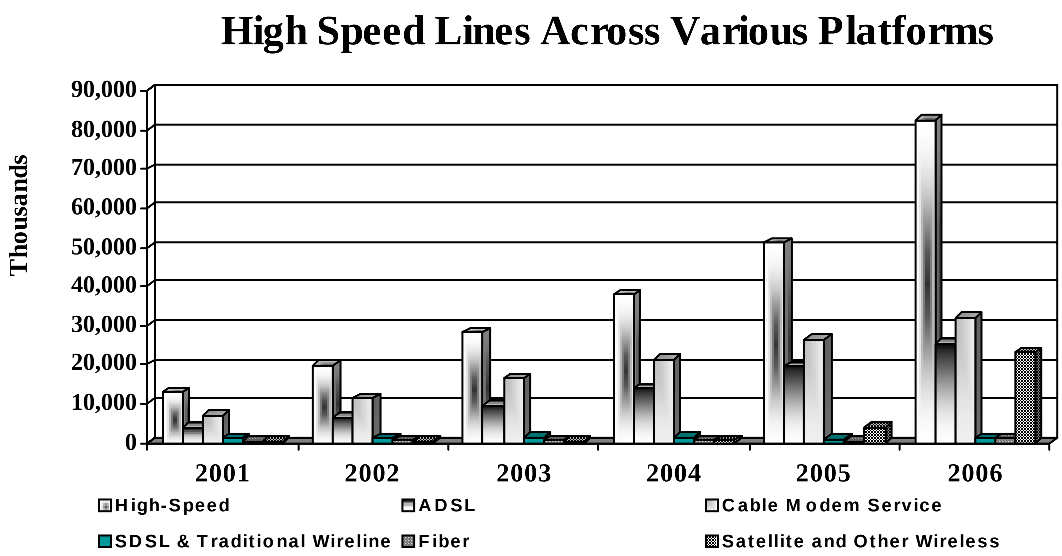
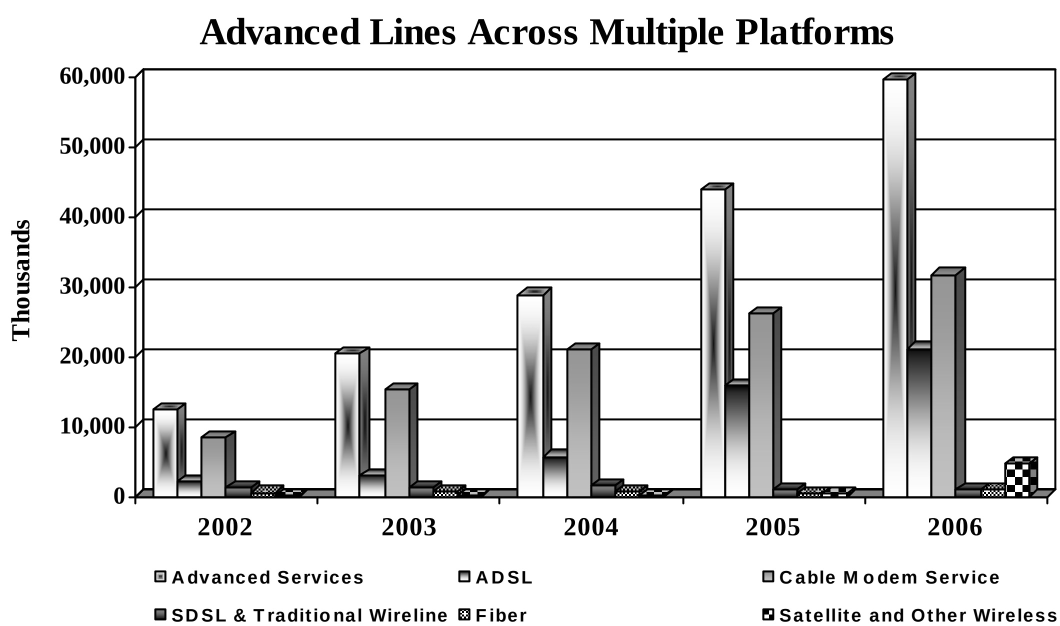
[7] Data on advanced services for Internet access is collected every six months; the latest available data released from the FCC is from December 2006. The report on *High Speed Services for Internet Access: Status as of December 31, 2006*, released October 31, 2007, is available at: www.fcc.gov.
[8] Ibid., Chart 12, page 21.
[9] Ibid., Table 1, page 6.
[10] Ibid., Table 3, page 8.
[11] Ibid., Table 2, page 7. 45.9 million of these advanced services lines were assigned to residential and small business subscribers. Ibid., Table 4, page 9.
[12] Ibid., Table 1, page 6.




ADSL advanced services lines increased during 2006 by 33% to 21.1 million lines, while cable modem advanced service lines increased by 21% to 31.7 million lines.[13]




[13] Ibid., Table 2, page 7.

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# COMPETITION

## Strategic Goal:

***Competition in the provision of communications services, both domestically and overseas, supports the Nation's economy. The competitive framework for communications services should foster innovation and offer consumers reliable, meaningful choice in affordable services.***

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 Commission 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 2007 PERFORMANCE GOALS*

- Promote access to telecommunications services for all Americans.

- Ensure that American consumers can choose among multiple reliable and affordable communications services.

- Promote pro-competitive and universal access policies worldwide.

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- Work to inform American consumers about their rights and responsibilities in the competitive communications marketplace.

- Enforce the Commission's rules for the benefit of consumers.

### *FY 2007 PERFORMANCE HIGHLIGHTS*

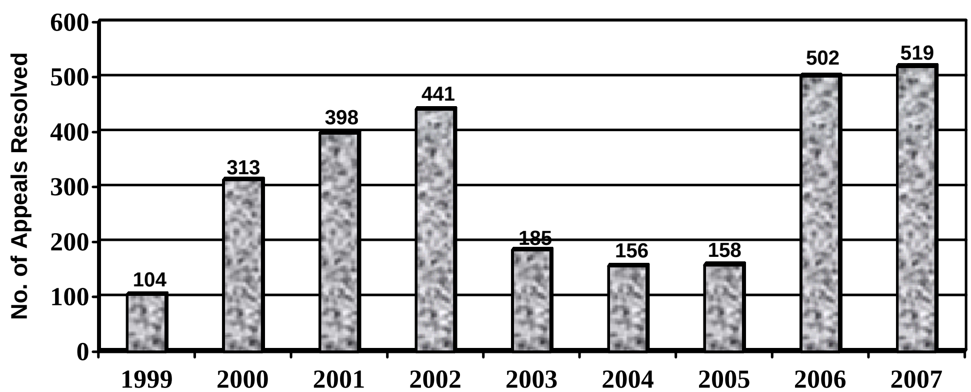
***Promote access to telecommunications services for all Americans:***

- <u>Improvements to Universal Service Fund</u> – As part of its efforts to promote universal access to communications services by fostering competition and encouraging the deployment of efficient communications technologies, the Commission took steps to improve the administration and operation of the federal Universal Service Fund (USF). Among other actions, the Commission:
    - Preserved the contribution base by upholding 18 decisions of the Universal Service Administrative Company (USAC) finding that contributors were not in compliance with the Commission's USF contribution rules and orders.
    - Adopted a Memorandum of Understanding (MOU) with USAC to improve the management, administration, and oversight of the USF. Among other things, the MOU implemented performance metrics to better manage the USF and the Administrator. The MOU also required the USF Administrator to adopt certain financial management

techniques required of Federal agencies, such as compliance with internal control requirements contained in OMB Circular A-123.

- Adopted an order strengthening the safeguards against waste, fraud, and abuse of USF. The order adopted performance measurements for the Administrator, document retention requirements, and comprehensive debarment rules. In addition, the order adopted penalties for USF contributors who fail to make timely payments.
- Completed a detailed analysis of USAC's administrative expenses. In addition, the Commission required the USF Administrator to conduct a fraud risk analysis.
- The Commission also adopted orders during FY 2007 granting more than 700 appeals of decisions of the USF Administrator as part of its efforts to ensure that eligible schools and libraries obtain access to discounted telecommunications and information services, including broadband access. The chart below compares the volume of E-Rate appeals resolved in the first 10 months of 2007 and in previous full years:

**Number of E-Rate Appeals Resolved by Calendar Year (includes Grants, Denials, and Withdrawals)**




* 1st ten months of 2007 only.

- Initiated corrective action efforts in response to the results of the Office of Inspector General's audit program for USF which included 459 audits of USF program participants to determine whether contributions to the USF, and distributions from that fund, were being made in accordance with the Commission's rules, and to produce data that would provide a basis for statistical estimates of erroneous payment rates as required by the Improper Payments Information Act.
- Issued a Notice of Proposed Rulemaking seeking comment on a recommended decision of the Federal-State Joint Board on Universal Service to impose an interim cap on high-cost support to competitive eligible telecommunications carriers pending comprehensive reform of the high-cost support mechanism.
- Promoted access to telecommunications services for Americans on or near tribal lands by adopting an order allowing Sacred Wind Communications to establish a new study area in New Mexico and immediately begin to receive federal universal service support.
- Took a total of 18 enforcement actions against carriers that failed to comply fully with the USF rules. These actions include:
  - three debarments from the USF E-rate program due to criminal convictions;
  - two suspensions from the USF E-rate program;
  - three Notices of Apparent Liability totaling $694,000;

  - five forfeiture orders totaling $2,773,432; and
  - five consent decrees totaling $1,320,000.

- Disability Access – The FCC undertook numerous actions to improve access to communications services for persons with hearing and speech disabilities.
  - The Commission released an Order clarifying that certain mandatory minimum standards for the provision of captioned telephone service do not apply to services that use voice recognition technologies (instead of typing) to convey messages, and that do not have the communications assistant play a role in setting up the calls.
  - The Commission held an E911 Disability Access Summit to focus on E911 calling and access for persons with hearing and speech disabilities. The Summit was intended to provide an opportunity to explore challenges and potential solutions for users of Internet-based Telecommunications Relay Services (TRS) to access Public Safety Answering Points by calling 911.
  - The Commission granted Hands On Video Relay Services, Inc.'s application for certification as a provider of Internet Protocol (IP) Relay and Video Relay Service (VRS) eligible for compensation from the Interstate TRS Fund.
  - The Commission received and evaluated annual reports submitted by hearing aid manufacturers and carriers regarding their efforts toward compliance with the Commission's hearing aid compatibility requirements.
  - The Commission acted upon several requests for extensions of time to come into compliance with hearing aid compatibility requirements. For requests involving providers and manufacturers that proffered sufficient justification, the Commission granted limited temporary extensions for providers and manufacturers to facilitate compliance with these requirements as expeditiously as possible. Where a provider or manufacturer did not provide sufficient justification, the Commission denied the requests and, where appropriate, commenced enforcement action.

- Broadband Over Power Lines (BPL) – The Commission's Laboratory Division authorized a number of Access BPL devices that comply with the new BPL equipment rules. As required under those rules, these devices have safeguards against harmful interference to existing radio services. Implementation of these devices by electric power utilities will further the development and growth of BPL services and will provide consumers an additional choice in broadband providers.

- Spectrum 5 Order – The Commission granted applicant access to the United States from two Netherlands-authorized satellites to provide Direct Broadcast Satellite (DBS) service to U.S. consumers, creating an opportunity for increased competition in the U.S. market.

- ICO 2 GHz Modifications – The Commission authorized ICO to relocate its planned 2 GHz satellite and to add a second satellite to its system. Allowing ICO to make these modifications to its system will enable it to provide better service to its customers.

- LEOP Order – The Commission authorized Intelsat to modify certain earth station facilities so that it can provide Launch and Early Orbit Phase services. This gave U.S. satellite operators another option for launch support services, thereby promoting access to telecommunications services for the customers of those satellite operators.

- Intelsat 709 Modification – The Commission granted Intelsat a license modification to authorize it to provide fixed satellite services in support of U.S. Government operations in the Middle East.

- Radiofrequency Devices
  - The Commission adopted a Second Report and Order modifying its rules to provide for more efficient equipment authorization of both existing modular transmitter devices and emerging partitioned (or "split") modular transmitter devices. These changes will promote competition in radiofrequency devices allowing manufacturers greater flexibility in certifying equipment and providing them relief from the need to obtain a new equipment authorization each time the same transmitter is installed in a different final product.
  - The Commission issued a Memorandum Opinion and Order granting in part requests for clarification of its rules for software defined radios that addressed: 1) the requirement to approve certain devices as software defined radios; 2) its policy on the confidentiality of software that controls security measures in software defined radios; 3) rules concerning the submission of radio software source code; and 4) rules concerning the certification of software defined amateur radio equipment. These clarifications promote the development of software radios that can serve multiple applications, thereby furthering competition.

***Ensure that American consumers can choose among multiple reliable and affordable communications services:***

- Prices for Wireless and Wireline Services – The Commission continued to focus on promoting greater affordability of domestic and international wireline and wireless services.
  - Domestic – The consumer price index for all telephone services rose 1.5%, while the overall consumer price index rose 2.5%. The consumer price index for wireless telephone services was unchanged, the index for wireline local telephone services rose 2.2%, the index for wireline intrastate toll service rose 3.3%, and the index for wireline interstate toll service rose 5.1%.
  - International – The Commission reported in April 2007 that the average international calling rate charged to U.S. consumers fell from 14 cents per minute in 2004 to 11 cents per minute in 2005. This continues a trend of falling rates since 1999 when the average international calling rate was 51 cents per minute.

- Availability of Additional Spectrum – The Commission made significant amounts of spectrum available for the provision of services to increase competition. Commission action in this area included the following:
  - The Commission auctioned and licensed 90 megahertz of spectrum for advanced wireless services in the 1710-1755 and 2110-2155 MHz band for new wireless services and new competitive entrants.
  - The Commission also held several other spectrum auctions, including those involving broadband Personal Communications Service (PCS), 1.4 GHz band, 220 MHz, and FM broadcast spectrum.
  - The Commission adopted rules for auctioning spectrum for wireless services in the 700 MHz band. The Commission adopted a commercial band plan with a mix of geographic service area licenses and spectrum block sizes, and established stringent build-out requirements. To encourage innovation and consumer choice in devices and services, the Commission also established one commercial block in which licensees would be required to enable customers, device manufacturers, third-party application developers and others to use devices and applications of their choice.

- Local Competition – The Commission continued its efforts to promote local competition, by seeking comment on a variety of forbearance petitions, extending statutory deadlines to ensure adequate time for comment and analysis, and refreshing the record in outstanding dockets in order to reflect recent marketplace and industry developments.

- Forbearance – In the wake of the deemed grant of a petition filed by the Verizon Telephone Companies seeking forbearance from Title II common carrier requirements and Computer Inquiry rules applicable to broadband services, a number of other carriers have filed petitions seeking similar relief, and the Commission released public notices seeking comment on each of these petitions and extended the statutory deadlines for most of them.
  - The Commission released an order granting in part a petition filed by ACS of Anchorage, Inc. (ACS) seeking forbearance from the unbundling obligations and pricing standards for unbundled network elements, as they apply to ACS's Anchorage study area.
  - The Commission conditionally granted in part and denied in part Qwest's petition for forbearance from dominant carrier regulation of its in-region, interexchange services. The Order allows Qwest to provide in-region, interstate, interLATA telecommunications services through its Bell Operating Company or through other Qwest affiliates that do not comply with section 272 or the Commission's rules implementing that section, without those services becoming subject to dominant carrier regulation, subject to Qwest's compliance with a series of conditions. The Commission found that these actions would promote competition by freeing Qwest to compete and innovate in the provision of these services.
  - The Commission extended the statutory deadline on a petition filed by ACS for forbearance from certain dominant carrier regulation of its interstate access services and from Title II regulation of its broadband services.
- Refreshing the Record –
  - The Commission invited parties to update the record pertaining to issues raised in the Commission's equal access and nondiscrimination Notice of Inquiry, in light of marketplace and industry developments. The Commission requested that parties provide any new information or arguments relevant to whether there is a continued need for equal access and nondiscrimination obligations.
  - As part of its ongoing efforts to foster competition in local communications markets and to promote the continued deployment of competitive and advanced telecommunications services, the Commission invited parties to update the record pertaining to issues raised in the Commission's Competitive Networks proceeding in light of marketplace and industry developments. This will enable the Commission to undertake appropriate review of the status of the deployment of competitive and advanced telecommunications services in multiple tenant environments and to determine whether additional action is necessary to address the ability of premises owners to discriminate unreasonably among competing telecommunications service providers.
- Other Actions –
  - The Commission issued a Report and Order concluding that Mid-Rivers Telephone Cooperative, Inc. occupied a market position comparable to that of a traditional legacy incumbent LEC in the Terry, Montana exchange, and that treating Mid-Rivers as an incumbent LEC for purposes of section 251 in that exchange was consistent with the public interest.
  - The Commission issued a Report and Order and Declaratory Ruling eliminating barriers to competitive entry in multi-unit buildings where a new entrant seeks to compete against an incumbent provider. The Commission clarified that competing telephone companies must have access to the incumbent's inside wire subloops in

multi-unit premises at the terminal block in order to install service. This item also addressed access to inside wiring for competitive entry for video services.

- Transfer of Control Requests – The Commission processed a substantial number of requests for transfer of control of authorizations.
  - The Commission reviewed over 7,200 applications involving wireless and broadcast license assignments or transfers of control to ensure that these transactions served the public interest and would not hinder competition.
  - Domestic Section 214 Authorizations – The Commission processed 105 requests to transfer control of domestic section 214 authorizations, of which 100% were processed within its speed of disposal goals.
  - International Section 214 Authorizations and Satellite Licenses – The Commission granted 209 routine transfers of control and assignments of international section 214 authorizations, of which 97% were processed within its speed of disposal goals. In addition, the Commission processed 9 transfers of control and assignments of submarine cable landing authorization.
  - Space Stations – Commission staff processed three transfer of control applications, all of which were processed within 180 days. Commission staff processed five assignment applications of which three were processed within 180 days.
  - Earth Stations – Commission staff processed 118 earth-station transfer of control applications of which 102 were processed within 180 days; Commission staff processed 246 assignment applications of which 245 were within processed within 180 days. Thus, 95.3% of earth station transfer of control and assignment applications were processed within 180 days.
  - Major Transfer of Control Requests Approved –
    - AT&T and BellSouth Merger – Following a full public interest review, the Commission approved the merger of BellSouth with AT&T, concluding that significant public interest benefits were likely to result from the transaction. To address potential public interest harms identified in the analysis of the transaction, approval was subject to a series of voluntary commitments made by AT&T that are enforceable by the Commission, but are not general statements of Commission policy, and do not alter Commission precedent or bind future Commission policy or rules.
    - ALLTEL-Midwest Wireless Transaction – Following a full public interest review, the Commission approved the acquisition of Midwest Wireless by ALLTEL. To address potential public interest harms identified in the analysis of the transaction, approval was subject to certain conditions, including divestitures in four market areas.
    - The Walt Disney Co. and Citadel Broadcasting Corporation – On March 30, 2007, the Commission approved the transfer of 24 major-market radio station licenses. The transfer of control resulted in the loss of Citadel's grandfathering rights to continue to own 11 stations in seven markets. To address that issue, the Order approved the assignment of the licenses for those stations to an insulated divestiture trust.
    - Univision Communications Inc. and Broadcasting Media Partners, Inc. – The Commission approved the transfer of control of 41 full-power licenses, 14 class A licenses, five low-power licenses, and five television translator licenses, as well as 73 full-power radio licenses (55 FM and 18 AM) and nine FM translator licenses.
  - Major Transfer of Control Reviews Initiated – The Commission also began consideration of several major transactions requiring Commission approval to transfer control of

authorizations. To begin a full public interest review, comment periods were established to allow participation by interested parties.

  - XM Satellite Radio Holdings Inc. and Sirius Satellite Radio Inc. – Applicants propose the merger of Satellite Digital Audio Radio Service licensees into one entity.
  - The DIRECTV Group, Inc. and Liberty Media Corporation – Applicants seek consent to transfer control of various Commission licenses and authorizations from News Corp. to Liberty Media.
  - Clear Channel Communications, Inc., Thomas H. Lee Equity Fund VI, L.P. and Bain Capital IX, L.P. – The jointly submitted applications seek consent to transfer control of broadcast radio stations and television stations held by subsidiaries of Clear Channel.

- International Facilities Authorization – The Commission acted upon 239 section 214 applications for authorization of new providers of international services, of which the Commission processed 97% within its speed of disposal goals.

- Payphone Compensation Obligations – The Commission issued a public notice to remind facilities-based telecommunications carriers of their obligations under the Commission's payphone compensation rules, which ensure that payphone service providers are fairly compensated for every payphone-originated call that is completed, as required under section 276 of the Communications Act.

- Increased Competitive Choices for Multichannel Video Programming – The Commission took a number of actions that provided DBS operators with capacity that will allow for the expansion of service into more markets, expand their programming offerings and make more efficient use of available spectrum.
  - DIRECTV ENTERPRISES, LLC, Applications for Authority to Launch and Operate the DBS and Ka-band Payloads on the DIRECTV 9S Satellite – This order provided applicant DBS national and local-into-local capacity, with the Ka-band capacity allowing for the expansion of local-into-local into more markets, and capacity for backhauling the signals of local broadcast stations.
  - EchoStar Satellite L.L.C., Application to Construct, Launch, and Operate a Direct Broadcast Satellite at the 86.5° W.L. Orbital Location – This order granted a satellite license to allow EchoStar to offer its customers more local-into-local channels, expand its programming options, and more efficiently use the orbital resources and spectrum allocated for DBS service.
  - EchoStar Satellite Operating Corporation, Application for Authority to Operate the EchoStar 9 Satellite in the Lower 500 MHz Portion of the Ka-band Frequencies – This order granted a waiver which allowed EchoStar to provide service using 400 megahertz of spectrum that would not otherwise be used until it launches its authorized next-generation Ku-/Ka-band satellite.
  - EchoStar Satellite Operating Corporation, Application for Extension and Modification of Special Temporary Authority to Operate Direct Broadcast Satellite Service over Channels 23 and 24 at the 61.5º W.L. Orbital Location – This gave EchoStar the flexibility to meet its customers' programming needs in light of transponder failures on the EchoStar 3 satellite, which is co-located at the 61.5º W.L. orbital location.

- Franchising Process for New Video Market Entrants – Adopted rules and provided guidance to implement the directive in section 621(a)(1) of the Act that local franchising authorities not unreasonably refuse to award competitive cable franchises. The Commission also adopted a Further Notice of Proposed Rulemaking in which it seeks comment on how its findings in the Order should affect existing cable franchisees.

- Report on Cable Industry Prices – Released a statistical report on average rates for the cable basic service tier, cable programming service tier, and equipment. This Report was issued in compliance with the statutory obligations of section 623(k) of the Communications Act.

- Local Number Portability – The Commission took steps to ensure that customers were able to port their numbers reliably and expeditiously when changing carriers.
    - The Commission sought comment on a petition seeking a declaratory ruling that carriers that are obligated to provide number portability may not obstruct or delay the porting process by demanding information from requesting carriers beyond that required to validate the customer request and accomplish the port.
    - The Commission granted a petition filed by Time Warner Cable concerning interconnection between competitive local exchange carriers (LECs) and incumbent LECs for the purpose of exchanging traffic on behalf of VoIP-based providers. As a condition of the interconnection rights granted in the Order, where a LEC wins back a customer from a VoIP provider, the number must be ported to the LEC at the customer's request.

- Telesat Canada, Petition for Declaratory Ruling for Inclusion of ANIK F3 on the Permitted Space Station List – The Commission issued an order that provided U.S. earth stations the ability to communicate with a Canadian satellite, ANIK F3, which in turn could stimulate competition by providing U.S. consumers with more alternatives in communications services and providers.

- Program Access Exclusivity Rule – The Commission initiated a proceeding to determine whether the prohibition on exclusive contracts for satellite cable programming or satellite broadcast programming between vertically integrated programming vendors and cable operators continues to be necessary to preserve and protect competition and diversity in the distribution of video programming.

- Satellite Competition Reporting – Commission staff researched and analyzed the commercial communications satellite industry and released the Commission's first annual report on the status of competition in the markets for domestic and international satellite communications services, as requested by Congress. In the report, which was released on March 26, 2007, the Commission concludes that there is effective competition in both wholesale and retail satellite services markets. The report was retrospective, focusing on conditions prevailing in the satellite services markets from the beginning of the 2000 calendar year through the 2006 calendar year.

- Access to Multiple Dwelling Units for Video Providers – The Commission released a Notice of Proposed Rulemaking seeking comment on the use of exclusive contracts for the provision of video services to multiple dwelling units or other real estate developments and the impact of such use on the goals of enhanced multichannel video competition and accelerated broadband deployment.

- 2005 International Telecommunications Data Report – On April 24, 2007, the Commission released the annual report entitled 2005 International Telecommunications Data, which reports traffic between the United States and other countries for international message telephone, private line, and miscellaneous services on a country-by-country basis. The report included the following statistical findings:

- U.S. billed minutes increased 10% from 63.7 billion to 70.1 billion in 2005.
- Retained revenues (revenues billed by U.S. carriers, less settlement amounts owed to foreign carriers for U.S. billed traffic, plus settlement amounts due to U.S. carriers for foreign-billed traffic) decreased 13.3% from $5.8 billion in 2004 to $5.0 billion in 2005.
- U.S. carriers' net settlement payments (the amount paid to foreign carriers for completing calls) decreased from $3.6 billion in 2004 to $3.1 billion in 2005.
- Pure resale minutes grew from 38.6 billion in 2004 to 46.6 billion minutes in 2005. Billed revenues increased from $5.2 billion in 2004 to $5.8 billion in 2005.

- Competition and Diversity in Video Programming Distribution and Carriage – On June 15, 2007, the Commission initiated a review of the program carriage complaint processes and the commercial leased access requirements. These rules are intended to aid in the diversity of video programming sources.

- ORBIT Act Report to Congress – On June 15, 2007, the Commission issued the eighth Orbit Act Report to Congress. The purpose of the Orbit Act is to promote a fully competitive global market for satellite communications services for the benefit of consumers and providers of satellite services and equipment by fully privatizing the intergovernmental satellite organizations, INTELSAT and Inmarsat. The Orbit Act requires the Commission to report annually to Congress on the progress made to achieve the purposes and objectives of the Orbit Act. The report describes the current status of the privatized intergovernmental satellite organizations and the many decisions and activities undertaken by the Commission to continue to implement and enforce the requirements of the ORBIT Act in the past twelve months.

- Numbering Conservation & Resource Optimization – The Commission continued its efforts to implement number conservation measures to ensure that the public is protected from the unnecessary expense and confusion related to premature area code splits. In particular, it granted petitions for delegated authority to implement mandatory thousands-block number pooling to state commissions in several states, including Ohio, New York, Washington, New Mexico and Kentucky. It also reaffirmed a prior decision allowing the use of specialized overlays under particular circumstances. These actions promote the Commission's goal to encourage a competitive telecommunications market in the United States by ensuring fair and impartial access to numbering resources.

- Special Access Proceeding – In the Special Access proceeding, the Commission commenced a broad examination of the regulatory framework applicable to price cap local exchange carriers' interstate special access services, including whether the special access pricing flexibility rules have worked as intended. In July 2007, the Commission released a Public Notice seeking additional comments in that proceeding. Specifically, the Commission asked for comment on how a number of developments in the telecommunications industry, including a number of mergers and the rise of intermodal competition, may have affected parties' positions on the issues raised in this proceeding.

- Call Home Act of 2006 – In response to the Call Home Act of 2006, the Commission adopted an Order forbearing from applying certain Universal Service and Telecommunications Relay Service contribution requirements to calls placed by armed forces personnel stationed or deployed outside the United States to their families or friends at home. The Commission adopted this Order so carriers could reduce the prices that these military personnel pay to call family and friends in the United States.

- Roaming – The Commission adopted an order clarifying the roaming obligations of Commercial Mobile Radio Service (CMRS) providers, finding that automatic roaming is a common carrier obligation for CMRS carriers. The order requires that CMRS carriers provide roaming services to other CMRS carriers upon reasonable request and on a just, reasonable, and non-discriminatory basis.

- International Facilities Rules and Policies – The Commission continued its ongoing review of the rules applicable to authorization of international facilities, seeking opportunities to further structure the Commission's filing process and clarify and simplify its rules and policies. As part of this process, the Commission adopted a Report and Order that clarified its rules and procedures in connection with international telecommunications applications as well as certain procedures with respect to submarine cable landing licenses.

- Foreign Carriers – Commission staff continue to develop recommendations based on the record from the Commission's Notice of Inquiry into measures to protect competition from anticompetitive conduct by foreign carriers, such as blocking circuits to increase termination rates paid by U.S. carriers.

- International Reporting Requirements – Commission staff continue to develop recommendations for Commission action on a rulemaking initiated by the Commission in 2004 to conduct a comprehensive review of the reporting requirements to which carriers providing U.S. international services are subject. The Commission sought comment on several changes to reduce and streamline the reporting requirements.

- Licensing Rules for Direct Broadcasting Satellite Service Systems – The Commission continued to consider issues raised in comments and replies filed in a rulemaking proceeding to consider adopting licensing rules for Direct Broadcasting Satellite Service systems at orbit locations related to the Region 2 Band Plan, in light of the D.C. Circuit ruling in Northpoint v. FCC.

- Eleventh Annual Report and Analysis of Competitive Market Conditions with respect to Commercial Mobile Services – The Commission submitted its Eleventh Annual Report to Congress on the state of competition in the commercial mobile radio services, pursuant to section 332(c)(1)(C) of the Act. The Report focuses on the market conditions for these services and concludes that the market continues to behave in an intensely competitive manner that significantly benefits the American consumer.

***Promote pro-competitive and universal access policies worldwide:***

- Meetings with Foreign Regulators – The Commission met extensively with foreign regulators in order to foster competition in foreign markets and promote universal service policies.
  - The Commission coordinated and administered the International Visitors Program, hosting 135 meetings for over 700 visitors from 66 different countries.
  - The Commission provided staff who offered presentations at the U.S. Telecommunications Training Institute (USTTI) for courses entitled "Spectrum Management in the Civil Sector" and "Regulatory and Privatization Issues in Telecommunications," and planned and coordinated all Commission-sponsored USTTI activities. Participants from the following 31 developing countries were trained: Algeria, Armenia, Azerbaijan, the Bahamas, Bahrain, Bolivia, Burundi, Cambodia, Egypt, El Salvador, Federated States of Micronesia, Gambia, Ghana, Jordan, Kenya, Lebanon, Liberia, Lithuania, Malawi, Marshall Islands, Morocco,

Nigeria, Palau, Romania, Rwanda, Saudi Arabia, Sri Lanka, Tanzania, Trinidad and Tobago, Uganda, and the United Arab Emirates.

  - The Commission supported participation of FCC officials in bilateral, regional, and international consultations with officials from countries including Japan, China, Korea, India, Mexico, France, Germany and the United Kingdom to discuss U.S. policies on competition, convergence, spectrum management, 3G, and media issues, including digital mobile broadcasting and Internet protocol TV.
  - Commission staff served as international Vice Chairperson of ITU-R Study Group 6 on broadcasting and broadcasting-satellite services, Chairperson of Working Party 6E on terrestrial delivery, Chairperson of Study Group 9 on fixed microwave services, and the Chairperson of Working Party 9D on sharing with radio services.
  - Commission staff participated in meetings of ITU-R Working Parties and Study Groups 1, 4, 6, 7, 8, and 9, regarding technical regulations to allow more competition in satellite and terrestrial services.
  - Commission staff participated in the meetings of the CITEL Assembly and the Permanent Consultative Committee I for Telecommunication Standardization. Staff coordinated the U.S. position regarding many issues including International Telecommunications Regulations (ITRs) and Broadband over Power Lines.
  - Commission staff participated in two meetings of the OECD's Committee for Information, Computer and Communications Policy and two meetings of the OECD's Working Party on Communications Infrastructure and Services Policy, at which statistical research and policy papers on broadband development were discussed.
  - In March 2007, Commission staff participated in the meeting of the ITU-T Study Group 3, which focuses on tariff and accounting principles, including related telecommunications economic and policy issues. One of several key issues is Internet cost accounting. The Commission developed arguments necessary to maintain a market-driven approach to Internet traffic flows.
  - Commission staff participated in two meetings of the Asia Pacific Economic Cooperation Telecommunications Working Group (APEC TEL), a forum for policy and regulatory discussion where topics of discussion included industry perspectives on access, interconnection and consumer issues.

- Loral Satellite – The Commission authorized Loral to use a Tonga-licensed satellite to provide service to Bhutan, Palau, the Federated States of Micronesia, Afghanistan, Vietnam, and French Polynesia from its earth station in Kapolei, Hawaii. This Order represents another step in implementing the market-opening commitments made by the United States in the World Trade Organization Agreement on Basic Telecommunications Service. These commitments allow new entrants and technologies into the U.S. market, advancing the growth of satellite services around the globe.

- Participation in International Telecommunication Union Development Sector Study Groups – Commission staff participated in meetings of International Telecommunication Union Development Sector (ITU-D) Study Groups 1 and 2. Commission staff is the Rapporteur (facilitator) for the ITU-D Study Group question on enforcement, and has worked to coordinate and foster discussions on enforcement issues.

***Work to inform American consumers about their rights and responsibilities in the competitive communications marketplace:***

- Outreach Initiatives on DTV
  - The Commission vigorously enhanced its consumer education and outreach program to provide consumers with information about the transition from analog to digital television (DTV) and to help them better understand new technology, terminology and products. The agency developed and updated DTV informational materials and distributed them to consumers and the media. The Commission is now part of the DTV coalition, a group comprised of other federal agencies and industry, and has produced DTV advisories with the Consumer Electronics Association, the Consumer Electronics Retail Association, and the National Association of Consumer Affairs Administrators. The Commission actively participated in a host of consumer and industry events and regularly updated its dedicated DTV Web site, www.dtv.gov, as circumstances warranted. The agency staffed exhibits and made presentations at the annual National Consumer Protection Week, Public Service Recognition Week, the Youth Technology Summit in Greenbelt, MD, the Japanese American Citizen League, the American Library Association, as well as across the country at the Consumer Electronic Show in Las Vegas, the AARP National Convention in Anaheim, CA, the National Association of Broadcasters in Las Vegas, the National Council of La Raza in Los Angeles, the National Association of Consumer Affairs Administrators in Philadelphia, and the National Cable Telecommunications Association in Las Vegas. The Commission also hosted town hall meetings, entitled "Ask the FCC," in New York, Texas and Virginia.
  - Customer Account Record Exchange (CARE) rules – The Commission released an Order on Reconsideration which adopted minor modifications to section 64.4002 of the Commission's CARE rules. The CARE rules require a local exchange carrier to supply customer account information to a customer's interexchange carrier (IXC) in certain identified situations.

***Enforce the Commission's rules for the benefit of consumers:***

In addition to efforts discussed above, the Commission took extensive action to ensure compliance with its rules in a variety of areas affecting consumer interests. Among the actions taken were the following:

- Improved processes for handling consumer concerns – The Commission took numerous steps to improve the consumer complaint process.
  - Using a multiple team approach, the Commission addressed a backlog of Junk Fax and Do Not Call consumer complaints filed before December 31, 2006, reviewing more than 57,000 Junk Fax complaints and 56,000 Do Not Call complaints. The Commission reviewed 100% of the backlogged complaints.
  - Responded to more than 128,000 consumer complaints on a variety of topics, including cable and satellite services, radio and television broadcasting, and wireline and wireless telecommunications.
  - The Commission is working to automate portions of the complaint enforcement process to help us respond even more efficiently to consumer complaints. Authorization was received from Congress to use $2.1 million in prior year funds to enhance the Commission's automated consumer complaint processing systems.
  - Instituted improved processing goals and internal tracking systems for Junk Fax and Do Not Call complaints to hold our performance accountable. Monthly, quarterly, and annual reporting of data addressing these new metrics is being used to track the success of the Commission's efforts to streamline service to the public and identify repeat

violators of the Commission's rules. One of these measures implements a policy whereby all consumers submitting complaints and inquiries must receive an initial response from the Commission within 20 days of receipt.

- Made it easier to file telemarketing complaints with the Commission – The Commission took steps to improve the complaint process by creating a new consumer complaint form. The Commission received OMB authorization to make the new form available for use as of May 1, 2007. The new complaint form makes it easier for consumers to file complaints and speeds the ability of the Commission to act on those complaints. This form is used to file complaints concerning telemarketing issues that fall under the Telephone Consumer Protection Act of 1991, including receipt of junk faxes, "Do Not Call" list violations, and other related consumer protection issues. The new electronic form expedites Commission service to the public by making it easier for consumers to file complaints and by helping to improve processing times, two areas noted in the April 2006 GAO Report on the Commission's junk fax enforcement program.

- The Commission attempts to resolve public safety interference complaints within one day; non-emergency interference complaints within one month; indecency complaints within nine months; and formal complaints within one year. The Commission attempts to resolve all other investigations and complaints within 15 months.

### Enforcement Investigations Performance Results

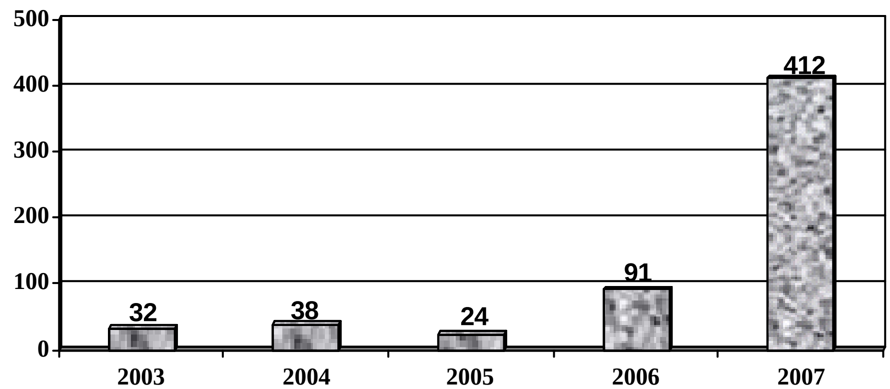
| Category | No. of Investigations Meeting Goal | No. of Investigations Not Meeting Goal | % Meeting Goal |
|---|---|---|---|
| Public Safety Interference | 388 | 0 | 100.00% |
| Non-Emergency Interference | 895 | 15 | 98.35% |
| Formal Complaints | 6 | 2 | 75.00% |
| Indecency Complaints14 | 601 | 2625 | 18.63% |
| Other Investigations/Complaints | 29608 | 75 | 99.75% |

- Took 213 actions involving monetary forfeitures or payments negotiated through consent decrees for violations of FCC rules. These included issuing 197 Notices of Apparent Liability (NAL) in the amount of $12,132,350 and negotiating 16 pre-NAL consent decrees in the amount of $14,668,600.

[14] This number includes indecency investigations that are the subject of pending litigation in federal court.

- Issued 412 citations, and 21 Notices of Apparent Liability totaling $5,325,000, against violators of the Junk Fax Protection Act. This represents a nearly five-fold increase from the 91 citations issued in FY 2006, and more than twice the number of citations issued to junk fax violators in 2003 through 2006 combined.[15]

**Citations Issued to Junk Fax Violators 2003 - 2007**




- Issued 386 citations, and one forfeiture order in the amount of $748,000, for violations of the do-not-call registry rules and requirements.

- Issued 354 citations, and two Notices of Apparent Liability totaling $22,500, for prerecorded advertising violations.

- The Commission issued four consent decrees totaling $88,000 with broadcasters for failing to make emergency information accessible to persons with hearing disabilities.

- The Commission entered into a consent decree for $470,000 with Talk America, Inc. terminating an investigation into Talk America's compliance with section 201(b) of the Act, 47 U.S.C. § 201(b), and the Commission's Truth-in-Billing rules, 47 C.F.R § 64.2401(b).

- The Commission granted three complaints filed by telecommunications service providers alleging that an incumbent LEC unlawfully denied them access to its telecommunications poles in violation of section 224 of the Communications Act.

- The Commission issued an order requiring a carrier to pay more than $2.7 million in damages plus prejudgment interest in a payphone compensation dispute brought on behalf of payphone service providers.

- The Commission issued its first enforcement actions for violations of the digital wireless handset hearing aid compatibility requirements. The Commission proposed $16,000 forfeitures against

[15] Source: 2003 – 2005 data: "Weakness in Procedures and Performance Management Hinder Junk Fax Enforcement" (GAO-06-425), United States Government Accountability Office, April 2006. 2006 – 2007 data: FCC.

two wireless carriers for failure to comply with the labeling requirements for digital wireless hearing aid compatible handsets.

- Customer Privacy – The Commission took a number of actions specifically directed to the enforcement of Customer Proprietary Network Information (CPNI) regulations and protecting the privacy interests of communications customers.
    - Exception to Customer Privacy Rules – The Commission released a declaratory ruling clarifying that telecommunications carriers' duty to protect the privacy of CPNI under section 222 of the Act does not prevent carriers from complying with the requirement that suspected images of child pornography be reported to the CyberTipLine, operated by the National Center for Missing and Exploited Children. This exception only applies to the extent disclosure of CPNI is "required," and therefore does not cover voluntary disclosures.
    - The Commission strengthened its rules to protect the privacy of CPNI that is collected and held by providers of communications services. The Commission prohibited the release of call-detail information during customer-initiated telephone contact, except when the customer provides a password. The Commission also sought comment on whether to expand its CPNI rules further to ensure that customer information and CPNI are protected in the context of mobile communications devices.
    - The Commission issued 19 Notices of Apparent Liability in the total amount of $1,500,000 for CPNI-related apparent violations, and entered into a $350,000 consent decree with a company for a CPNI-related violation. The Commission issued four Notices of Apparent Liability for $4,000 each against four entities for failing to respond to Commission directives in CPNI-related investigations, a forfeiture in the amount of $97,500 against an entity for failing to respond to a subpoena in a CPNI-related investigation, two forfeiture orders for $4,000 each against two entities for failing to respond to Commission directives in CPNI-related investigations, and issued two citations in investigations against companies for failure to respond to subpoenas.

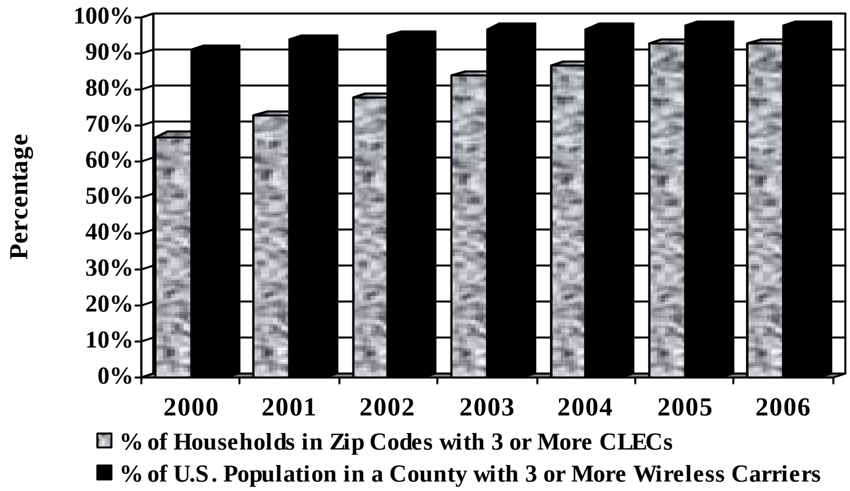
- CAN-SPAM rules – The Commission denied a Petition for Reconsideration filed by Cingular Wireless (now AT&T Mobility) reaffirming its decision to include CMRS providers sending mobile service commercial messages (MSCMs) to their subscribers in the general ban on sending MSCMs without express prior authorization. In its Order denying reconsideration, the Commission determined that the inclusion of CMRS providers in the ban was consistent with the unambiguous intent of Congress to curb spam. The Commission also found that the CAN-SPAM Act, in contrast to the TCPA, had no express exemption for an established business relationship. In April 2007, the Consumer & Governmental Affairs Bureau issued a Public Notice reminding CMRS providers of their obligation under the FCC's CAN-SPAM rules to register and update domain names used to transmit electronic messages to wireless devices.

## *FY 2007 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 93% in 2006.  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 98% in 2006.

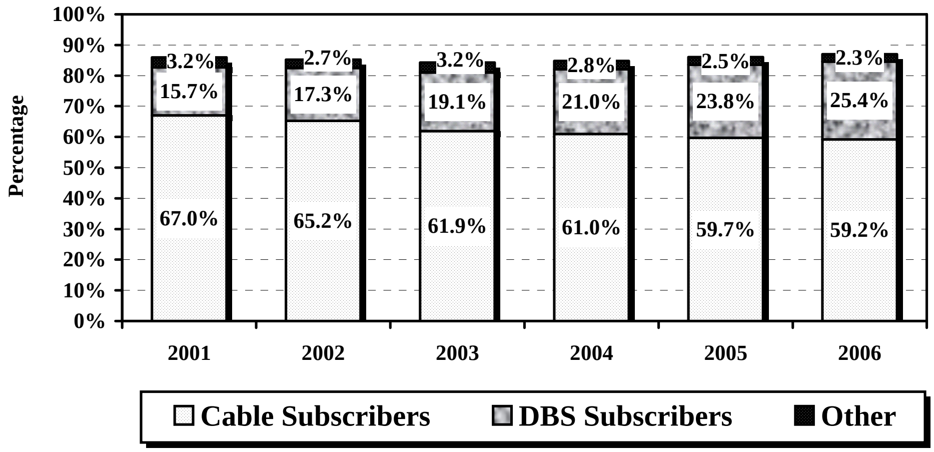
**Percentage of Population with Three or More Providers**



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

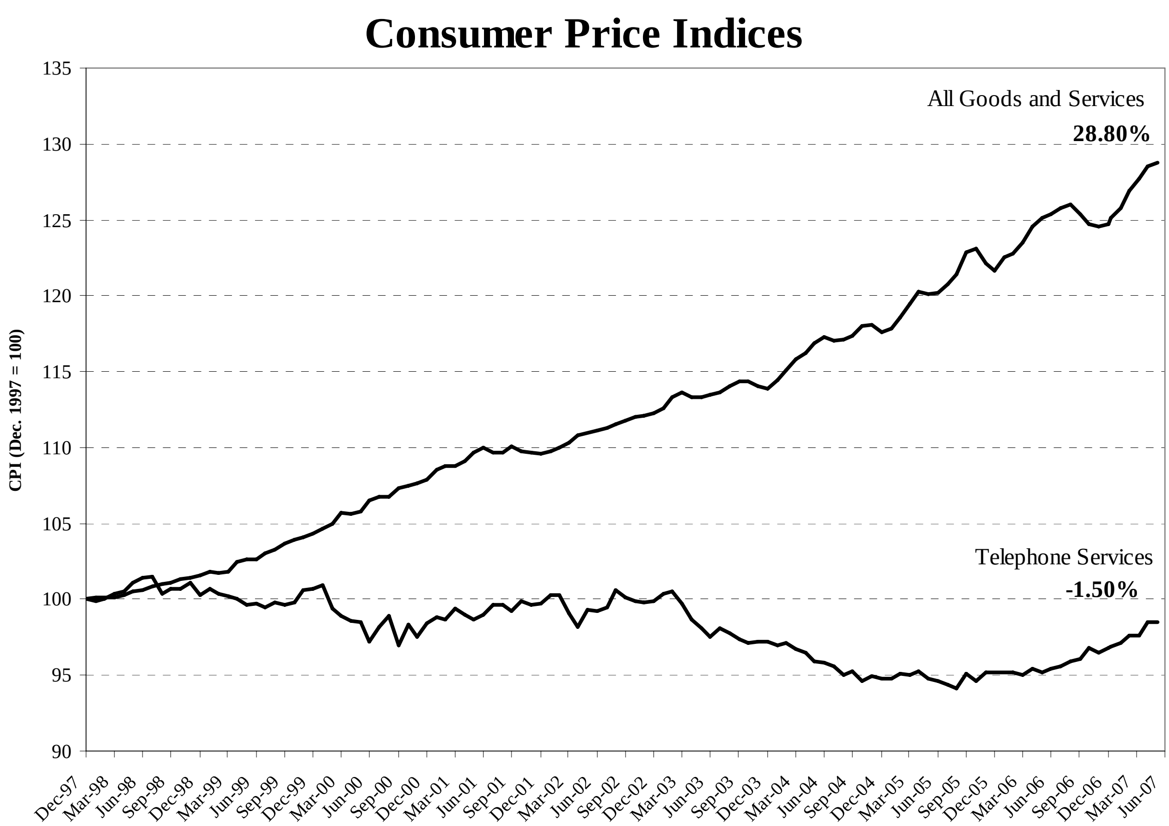
As of June 2006, 87% of the 110.2 million U.S. households with televisions subscribed to a multichannel video programming distribution service; 59.2% of all TV households were cable subscribers; 25.4% were direct broadcast satellite subscribers; and 2.3% subscribed to other MVPD services. Non-cable MVPD subscribers grew from 28.8 million households in June 2005 to 30.5 million households in June 2006, an increase of 5.9%. There are 14.4 million U.S. TV households that do not subscribe to an MVPD service and thus rely solely on over-the-air broadcast television for their video programming, representing 13 percent of all U.S. TV households. The major broadcast networks now provide their most popular programming in high-definition. Hundreds of local stations are using their digital channels to provide multicast programming, including news, weather, sports, religious material, music videos and coverage of local musicians and concerts, as well as foreign language programming.

**MVPD Subscribers as a Percentage of TV Households**



**Lower relative price for wireless and wireline services**

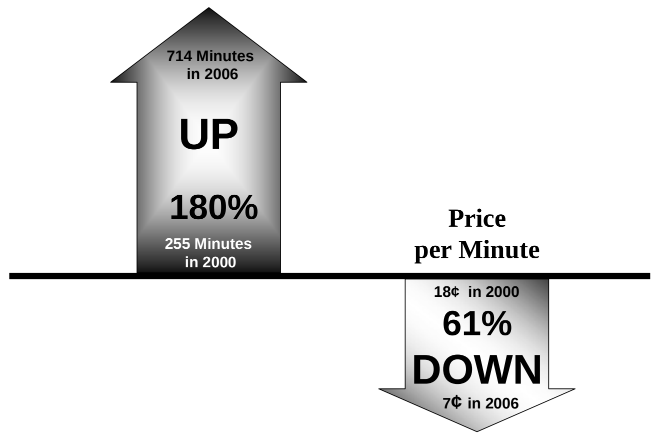
The consumer price for telephone services has declined over the last decade when compared to the price of other goods and services. The chart below uses data obtained from the Bureau of Labor Statistics to compare the Consumer Price Index (CPI) for Telephone Services with the CPI for all goods and services, 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 28.8% increase in the CPI for all goods and services, measured from the beginning of 1998 to June 2007, the Telephone service price index has declined by 1.5%.



**Consumer Prices for Telephone Services Continue to Fall**

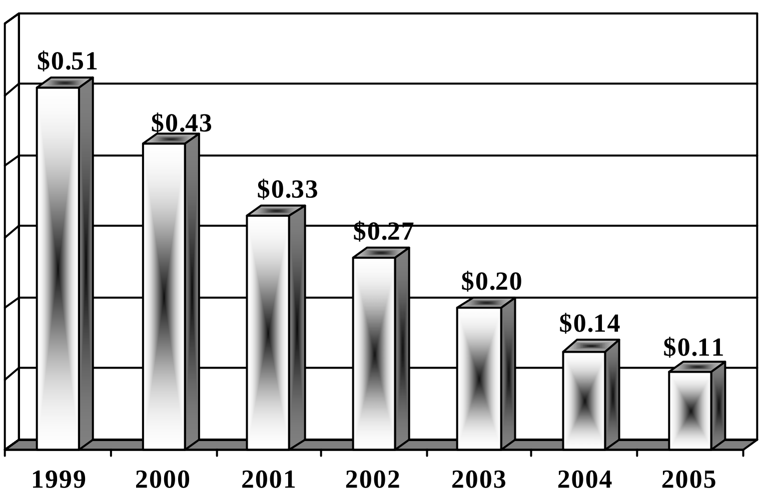
The consumer price for telephone services has declined since the beginning of this decade. The average price of wireless telephone calls has fallen over this period as well. As illustrated by the accompanying chart, the average price per wireless minutes of use per month for mobile telephone service, including both individual and business users, has fallen since 2000, down to seven cents per minute in 2006.

**AVERAGE PRICE PER WIRELESS MINUTES OF USE PER MONTH 2000 TO 2006**




**Decrease in the price for international calls**

## Price Per Minute for An International Call




The average international calling rate for U.S. consumers fell from 51¢ per minute in 1999 to 11¢ per minute in 2005.

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# *SPECTRUM*

## *Strategic Goal:*

***The Commission must facilitate efficient and effective use of non-federal spectrum domestically and internationally to promote 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 Commission.

### *FY 2007 PERFORMANCE GOALS*

- Ensure that the Nation's spectrum is used efficiently and effectively.

- Advocate U.S. spectrum interests in the international arena.

### *FY 2007 PERFORMANCE HIGHLIGHTS*

***Ensure that the Nation's spectrum is used efficiently and effectively:***

- Upcoming 700 MHz Auction – The Digital Television and Public Safety Act of 2005 (DTV Act) requires the Commission to (1) commence an auction of the previously unauctioned commercial spectrum in the 700 MHz Band no later than January 28, 2008, and (2) deposit the auction proceeds in the Digital Television Transition and Public Safety Fund by June 30, 2008. The auction, scheduled to begin on January 16, 2008, will feature 1,099 licenses available for bidding.

- Revised 700 MHz Service Rules –The Commission undertook the following series of actions revising the 700 MHz service rules affecting both public safety and commercial spectrum in the band:
    - With respect to the 24 megahertz of public safety spectrum, redesignated the wideband spectrum for broadband use in order to allow for nationwide interoperable broadband communications by public safety users.
    - Provided for the establishment of the 700 MHz Public Safety/Private Partnership, in which a nationwide commercial licensee and the public safety broadband licensee, working together, will form a shared, nationwide interoperable network for both commercial and public safety users.
    - Revised the band plan for the 62 megahertz of commercial spectrum to be auctioned in order to ensure a balanced mix of geographic service area licenses and spectrum block sizes to promote innovative and efficient broadband deployment in the band.

- Adopted “package bidding” procedures for the Upper 700 MHz C block in order to assist bidders that are seeking to create a nationwide footprint.
- To create a more open wireless platform to facilitate innovation and investment, required commercial licensees for the 22-megahertz Upper 700 MHz C block to allow customers, device manufacturers, third-party application developers, and others to use any device or application of their choice on their networks in this band, subject to certain conditions.
- Modified power limit rules for the commercial spectrum to enable higher power signals from wider band technologies, ensure all licensees regardless of technology have enough power to operate a viable service, and allow 700 MHz licensees operating in rural areas to more easily implement their systems.
- Revised rules applicable to Guard Band licenses, relocating these licenses in the band and providing them with greater flexibility, in order to promote more efficient use of Guard Band spectrum as well as other spectrum in the 700 MHz band.

- <u>Rechannelization of the 17.7-19.7 GHz Frequency Bands for Fixed Microwave Services (FS) Under Part 101</u> – The Commission revised its rules to reduce regulatory burdens for licensees subject to involuntary relocation from the 18.3-19.3 GHz band to the 17.7-18.3 GHz and 19.3-19.7 GHz bands, pursuant to the Commission’s reallocation of that band for exclusive satellite services use. The Commission’s action will promote more efficient use of the band by allowing licensees to request the amount of spectrum that they need, rather than having to request larger bandwidth channels or seek a waiver of the Commission’s rules.

- <u>Operation of New Low Power Devices on Vacant TV Channels</u> – The Commission decided to permit fixed low power devices to operate in the television broadcast bands on channels not being used for authorized services (white spaces). The Commission also sought comment regarding the appropriate implementation of the devices to ensure incumbent services are protected from harmful interference, and to determine whether personal/portable devices could use this band. The marketing of the approved devices may begin on February 18, 2009, after the transition to digital television (DTV) is complete. This action will promote spectrum efficiency by providing a mechanism to use spectrum that had been unusable in the past.

- <u>Administration of Relocation Cost-Sharing Plan for Licensees in 2.1 GHz Band</u> – The Commission formally selected PCIA–The Wireless Infrastructure Association and CTIA–The Wireless Association® to serve as clearinghouses in order to assist with the process of relocating microwave service and broadband radio service operations. This in turn will facilitate the deployment of Advanced Wireless Services and Mobile Satellite Service Ancillary Terrestrial Components in the band.

- <u>Evaluation of Mutually Exclusive Applications for Noncommercial Educational (NCE) FM Broadcast Stations</u> – The Commission evaluated approximately 200 applications for new or modified NCE FM construction permits, based on the Commission’s established NCE point system, that will bring new or improved service to 76 communities.

- <u>Transition Rules for Private Land Mobile Radio (PLMR) Systems</u> – The Commission reiterated that it would expeditiously establish a schedule for the transition of PLMR systems operating in the 150-175 MHz and 421-512 MHz bands to transition to 6.25 kHz narrowband technology once the technology matures to the point that sufficient equipment is available for testing. The Commission also strongly urged licensees to consider migrating directly to 6.25 kHz technology by January 1, 2013 rather than first adopting 12.5 kHz technology and later migrating to 6.25 kHz technology.

- Amendment of Part 90 Rules and Related Commission Rules in Other Rule Parts – The Commission initiated a proceeding to propose rule changes to Part 90 and related Commission rules in other rule parts, and sought comment regarding particular changes to the rules governing the 4.9 GHz band and the Wireless Medical Telemetry Service which shares spectrum with Part 90 operations. The Commission also sought comment on other potential Part 90 rule changes, including suggestions to revise or eliminate provisions that are duplicative, outmoded, or otherwise unnecessary.

- Sunset of the Cellular Radiotelephone Service Analog Requirement – The Commission denied a request to extend by two years the requirement that cellular licensees provide analog service to subscribers and roamers whose equipment conforms to the Advanced Mobile Phone Service (AMPS) standard. The Commission found that the public interest would not be served by extending the analog service requirement, and upheld the analog cellular sunset date of February 18, 2008, after which cellular licensees may, but will no longer be required to, provide AMPS service.

- Harmful Interference – The Commission investigated more than 1,100 complaints of unauthorized harmful interference. Among other things, the Commission initiated an investigation into FM modulators, including portable satellite radio receivers with built-in FM transmitters. In addition, the Commission (in coordination with other federal, state, and local government agencies) investigated allegations of harmful interference to government and public safety spectrum users.

- DTV Equipment Enforcement – The Commission issued the first enforcement actions for violations of its DTV tuner requirements, which proposed over $2.9 million in total forfeitures for the importation or shipment interstate of non-DTV-compliant television receivers.

- Revocation Proceedings – The Commission issued an order of revocation and commenced several proceedings before an administrative law judge to determine whether the licenses of various wireless, broadcast, or amateur radio operators should be revoked or whether forfeitures should be imposed.

- During FY 2007, the Commission conducted the following licensing and equipment authorization activities:
    - Processed approximately 490,000 applications and notifications relating to wireless services. Approximately 97 percent of these applications were processed in 90 days or less, and approximately 90 percent were processed in 30 days or less.
    - Granted 1,100 experimental licenses and STAs. Coordinated 6,186 non-government frequency assignments and 59,141 federal agency frequency assignments with NTIA.
    - Granted 9,025 new equipment authorizations.
    - Granted 879 earth station applications in an average of 52 days. Processed 174 space station applications in an average of 212 days.
    - Processed more than 21,000 applications for all broadcast services. Over 93% of these applications were processed within established goals.

- Unauthorized Radio Devices – The Commission investigated complaints about unauthorized and/or technically non-compliant radio frequency devices. For example, the Commission issued a $1 million forfeiture order for the marketing of at least 50 models of unauthorized digital audio devices, such as mixers, amplifiers, and digital effects processors. The Commission also proposed forfeitures totaling $225,000 for the marketing of unauthorized or non-certified police radar jammers, radio transceivers, and external radio frequency power amplifiers. In addition, the Commission entered into consent decrees resulting in voluntary contributions totaling $65,000 and the implementation of compliance measures to resolve investigations involving implantable cardiac devices and radio frequency identification devices.

- The chart below shows spectrum-related investigations and assessments in FY 2007.

| Forfeiture Actions | Forfeitures Assessed | Investigations Closed |
|---|---|---|
| **165** | **$10,894,955** | **6,388** |

- The Commission held five spectrum auctions during FY 2007.

| **Auc#** | **Service** | **Auction Open-Close Date** | **# of Licenses /CPs in Auction** | **# of Licenses /CPs Won in Auction** | **# of Winning Bidders** | **# of Small Business /New Entrants[16]** | **# of Licenses Won By Small Businesses /New Entrants** | **Net Winning Bids** |
|---|---|---|---|---|---|---|---|---|
| 68 | FM Broadcast | Jan 10-17, 2007 | 9 | 9 | 9 | 4 | 4 | $3,264,250 |
| 69 | 1.4 GHz | Feb 7-Mar 8, 2007 | 64 | 64 | 2 | 0 | 0 | $123,599,000 |
| 70 | FM Broadcast | Mar 7-26, 2007 | 120 | 111 | 60 | 31 | 53 | $21,301,175 |
| 71 | Broadband PCS | May 16-21, 2007 | 38 | 33 | 12 | 8 | 25 | $13,932,150 |
| 72 | 220 MHz | June 20-26, 2007 | 94 | 76 | 5 | 3 | 61 | $185,416 |

***Advocate US spectrum interests in the international arena:***

- Preparation for the 2007 World Radiocommunication Conference (WRC-07) – The World Radiocommunication Conference assembles every three to four years, under the auspices of the International Telecommunication Union (ITU), to revise treaty text in the form of Radio Regulations, which bind countries once ratified. WRC-07 is scheduled for October 22 through November 16, 2007 in Geneva, Switzerland. The Commission's goal for WRC-07

[16] New entrants are an identified category in broadcast auctions

is to secure international spectrum allocations for new services and protect incumbent services from interference. The Commission, State Department, and other U.S. government agencies, with the advice and recommendations of the WRC-07 Advisory Committee, developed U.S. proposals for WRC-07 which Commission staff have advocated in several key negotiations. Commission staff also built consensus for regional proposals on several key issues, including making 700 MHz spectrum available for new wireless services and seeking protection of wireless broadband in the 2.5 GHz bands.

- Bilateral, Regional, and International Consultation – The Commission worked to secure spectrum and minimize interference through advocacy in bilateral, regional, and international consultations, coordinations, and study groups. Commission staff participated at CITEL, America's regional meeting for spectrum, in order to achieve consensus on Inter-American proposals. Commission staff successfully completed satellite coordination efforts with countries in Europe, Asia, and North America. Commission staff also worked to advance U.S. spectrum policies in international working groups addressing satellite and terrestrial issues as well as unlicensed devices (e.g., Wi-Fi, Ultrawideband).

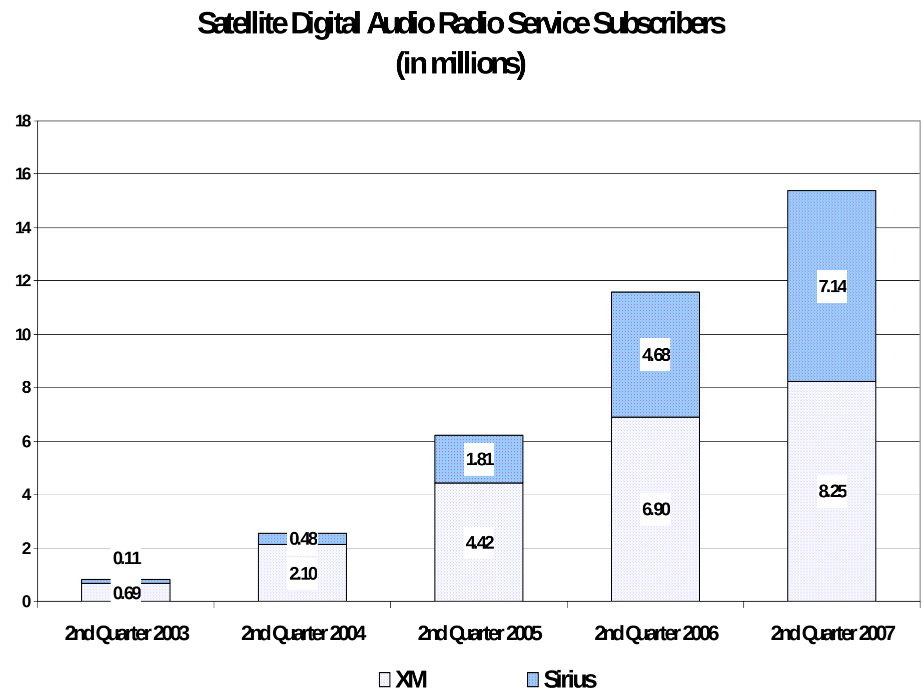
- US-Canada Spectrum Consultation – The Commission provided detailed technical analysis of potential interference between U.S. and Canadian television stations in the development of the new digital TV allotment plan. This analysis provided a baseline for cross border negotiations with Canada regarding permissible station channel assignments, locations, and power as each country transitions from analog to digital television.

- Participation in the 2007 World Radiocommunication Conference (WRC-07) – 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. WRC-07 is scheduled for October 22 – November 16, 2007 in Geneva, Switzerland. The Commission 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. The Advisory Committee for WRC-07 (WAC) has created five informal working groups to look at issues on the agenda for the WRC-07. In preparation for WRC-07, the WAC has produced over 50 recommendations for the Commission. The various conference agenda items have been initially assigned to the informal working groups as follows:

| ***Informal Working Groups (IWG)*** | ***Agenda Items (Major WRC-07 Issues)*** |
|---|---|
| IWG-1 – Terrestrial and Space Science Services | 1.2, 1.3, 1.5, 1.14, 1.16, & 1.20 |
| IWG-2 – Satellite Services including those related to High Altitude Platform Stations (HAPS) | 1.6 (Resolution 415), 1.7, 1.8, 1.17, 1.18, 1.19, & 1.21 |
| IWG-3 – International Mobile Telephone (IMT-2000) & 2.5 GHz | 1.4 & 1.9 |
| IWG-4 – Broadcasting and Amateur Services | 1.6 (Resolution 414), 1.11, 1.13, 1.15, & 7.1 (Recommendation 952) |
| IWG-5 – Regulatory Issues | 1.1, 1.0, 1.12, 2, 3, 5, 6, & 7.1 |

*FY 2007 PERFORMANCE INDICATORS*

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




This chart displays subscriber growth in the SDARS from the second quarter of 2003 to the second quarter of 2007. Since June 2006, the number of SDARS subscribers has increased by 33%, from 11.58 million subscribers to 15.39 million subscribers.

# *MEDIA*

## *Strategic Goal:*

***The Nation's media regulations must promote competition and diversity and facilitate the transition 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 2007 PERFORMANCE GOALS*

- Facilitate the transition to digital television and further the transition to digital radio.
- Reevaluate media ownership rules in light of a changing marketplace and judicial review.
- Enforce compliance with media rules.

### *FY 2007 PERFORMANCE HIGHLIGHTS*

***Facilitate the transition to digital television and further the transition to digital radio:***

- Digital Television Transition – February 17, 2009 is the deadline for the termination of full power analog broadcasting. The Commission acted in several proceedings intended to facilitate a smooth transition from analog to digital television ("DTV") broadcasting.
    - DTV Table of Allotments – The Commission released a *Notice of Proposed Rule Making* on October 20, 2006, that proposes a new DTV Table of Allotments, providing all eligible stations with their final channel assignments for DTV operations after the DTV transition.
    - DTV 3rd Periodic Review – On May 18, 2007, the Commission began its third periodic review of the transition of the nation's broadcast television system to DTV. These periodic reviews are conducted in order to assess the progress of the transition and make any necessary adjustments to the Commission's rules and policies to facilitate the introduction of DTV service and the recovery of spectrum at the end of the transition.
    - Carriage of Digital Broadcast Television Signals – On September 11, 2007, the Commission approved a *Memorandum Opinion and Order* adopting rules that obligate

cable operators to carry local digital broadcast television signals after the conclusion of the DTV transition. These rules will reduce the number of consumers who will require a converter box to view broadcast signals post-transition.

- Television Labeling – A *Second Report and Order* released on May 3, 2007 adopts disclosure requirements that require sellers of television receiving equipment without a digital tuner to disclose at the point-of-sale that such devices include only an analog tuner and therefore will require a converter box to receive over-the-air broadcast television after February 17, 2009.
- DTV Consumer Education Initiative – On July 30, 2007, the Commission released a *Notice of Proposed Rule Making* offering several proposals relating to consumer education about the digital television transition. Comment is requested on these proposals and an invitation is made for actions that the Commission could undertake to educate the public on the DTV transition.

- DTV Outreach – The Commission vigorously enhanced its consumer education and outreach program to provide consumers with information about the transition from analog to digital television, to help them better understand new technology, terminology and products, and on what to do to be prepared for the February 17, 2009 analog cut-off date.
  - Commission staff conducted workshops, participated in panels, and spoke at events throughout the country.
  - Staff created new DTV publications and updated existing materials to reflect recent developments, and distributed them to consumers and to the media. DTV publications have been produced in Spanish and in large font format for the sight impaired. Staff is exploring the possibility of translating DTV publications into other foreign languages as well. DTV publications are available to consumers at the point of sale, through the Commission's website, by phone, e-mail, written and fax request, and are distributed at public meetings and events.
  - The Commission's DTV-related web pages, including http://www.dtv.gov/, recorded over five million page views during FY 2007. The www.dtv.gov website was expanded, enhanced, and updated. The website provides an extensive amount of information regarding the digital transition and what consumers need to do to be prepared for the end of analog broadcasts.
  - A DTV Workshop was held on September 26, 2007, providing an opportunity for interested parties to discuss the challenges associated with the DTV transition and explore ways to develop coordinated consumer education activities. Organizations representing a broad range of consumers and other stakeholders participated; including AARP, NAACP, La Raza, the American Association of People with Disabilities, Native Public Media, Consumer Federation of America, the National Association of Broadcasters, and the Consumer Electronics Association.
  - The FCC joined the DTV coalition, a group comprised of other federal agencies and industry groups with DTV-related consumer education and outreach as its primary purpose.
  - The Commission produced DTV Advisories with the Consumer Electronics Association, the Consumer Electronics Retail Association, and the National Association of Consumer Affairs Administrators.
  - The Commission produced informational and instructional videos to post on its dtv.gov website.
  - The Commission drafted letters to many consumer groups, advising them of the DTV transition, providing DTV publications for dissemination to their members, and requesting feedback from them on how best to reach their members and other interested parties.

- Digital Audio Radio – The Commission adopted a *Second Report and Order* on March 22, 2007 containing rules to advance the offering of digital services by terrestrial radio broadcasters. The new rules allow digital broadcasting of CD-quality sound, multicasting by FM broadcasters, nighttime digital service by AM broadcasters, hybrid digital radio operations that enable the broadcaster to provide new and innovative services to listeners, and time-brokering agreements between broadcasters and third parties.

- Implementation of Section 629 – The Commission undertook several actions to further the directive of section 629 of the Act, through which Congress intended to ensure that consumers have the opportunity to purchase navigation devices from sources other than their multichannel video programming distributor ("MVPDs").

    - Ban on Integrated Set-Top Boxes – Under rules enacted by the Commission, MVPDs are required to make available a security element separate from the basic navigation device. The separation requirement was designed to enable unaffiliated manufacturers, retailers, and other vendors to commercially market host devices while allowing MVPDs to retain control over their system security. During the reporting period, the Commission acted on 155 separate waiver requests from MVPDs.

    - Commercial Availability of Bidirectional Navigation Devices – On June 29, 2007, the Commission released a *Further Notice of Proposed Rule Making* soliciting comment on proposed standards to ensure two-way compatibility of cable television systems and consumer electronics equipment.

***Reevaluate media ownership rules in light of a changing marketplace and judicial review:***

- Media Ownership Hearings – Section 202(h) of the Telecommunications Act of 1996 requires the Commission to periodically review its broadcast ownership rules and to modify or eliminate those rules it finds no longer to be "necessary in the public interest as a result of competition." In order to fully involve the public in the review process, the Commission held public hearings in Los Angeles, Nashville, Harrisburg, Tampa and Chicago.

- Research Studies on Media Ownership – The Commission procured or conducted the following ten economic studies as part of its review of its media ownership rules: 1) How People Get News and Information, 2) Ownership Structure and Robustness of Media, 3) Effect of Ownership Structure and Robustness on the Quantity and Quality of TV Programming, 4) News Operations, 5) Station Ownership and Programming in Radio, 6) News Coverage of Cross-Owned Newspapers and Television Stations, 7 & 8) Minority Ownership, 9) Vertical Integration, and 10) Radio Industry Review: Trends in Ownership, Format, and Finance. On July 31, 2007, the Commission issued a public notice releasing the media studies and seeking comment on their results.

- Localism Hearing – On June 28, 2007, the Commission conducted a Localism Hearing in Portland, Maine. The purpose of the hearing was to gather information from consumers, industry, civic organizations, and others on broadcasters' service to their local communities. Along with competition and diversity, promoting localism is a key goal of the Commission's media ownership rules.

- Streamlining of Radio Allocations Procedures – On November 3, 2006, the Commission adopted a *Report and Order* revising the allocations procedures for AM and FM stations in order to ease administrative burdens on Commission staff, reduce regulatory delays experienced by licensees, and benefit the public by expediting improved radio service.

***Enforce compliance with media rules:***

- Enforcement Actions – The Commission continued to vigorously enforce its rules governing broadcast stations and satellite and cable television services.
    - The Commission inspected 1,119 stores and websites and issued over 260 citations notifying retailers of their violations of the Commission's rules governing labeling of analog-only television equipment. The Commission is now considering next steps, including possible forfeiture actions against retailers found to be in violation in the repeat inspections that have been conducted.
    - The Commission conducted investigations into the importation or shipment of television receivers without DTV tuners, in violation of FCC rules. On May 30, 2007, the Commission issued Notices of Apparent Liability (NALs) against two companies totaling over $2.9 million.
    - The Commission settled by consent decrees payola investigations involving four major broadcast licensees. The settlements included the imposition of conditions and the adoption of certain business practices intended to improve compliance with the sponsorship identification rules as well as contributions by the four entities totaling $12.5 Million. The Commission continues its investigations of other licensees with possible payola or sponsorship identification violations.
    - The agency imposed Notices of Apparent Liability totaling some $90,000 for violations of the rules governing the broadcast of telephone conversations, maintenance of a main studio, station identification, transfer of control and the conduct of station-sponsored contests. NALs issued to broadcast stations and cable systems for failure to maintain a complete, accessible public file totaled over $140,000. In addition, NALs totaling $455,500 were issued to television stations for failure to comply with the children's programming requirements.

- Children's Television Programming – The Children's Television Act requires that television broadcast licensees air educational programming for children and protect children from excessive and inappropriate commercial messages. The Commission took several actions to enforce the requirements of the Act.
    - Commission Order – Adopted a *Second Order on Reconsideration and Second Report and Order* providing television broadcasters with guidance regarding their obligation to serve children as service transitions from analog to digital.
    - Public Notice – Released on April 17, 2007, a *Public Notice* to solicit comment on the status of children's television programming and broadcaster compliance with the Children's Television Act and the Commission's implementing rules.
    - Consent Decree – The Commission and Univision Communications Inc. entered into a $24 million Consent Decree to resolve pending license renewal applications subject to petitions to deny alleging that certain Univision stations failed to comply with the children's programming requirements.

- Report on Violent Television Programming – In response to a request from members of Congress, on April 25, 2007, the Commission released a *Report* on violent television programming and its impact on children.

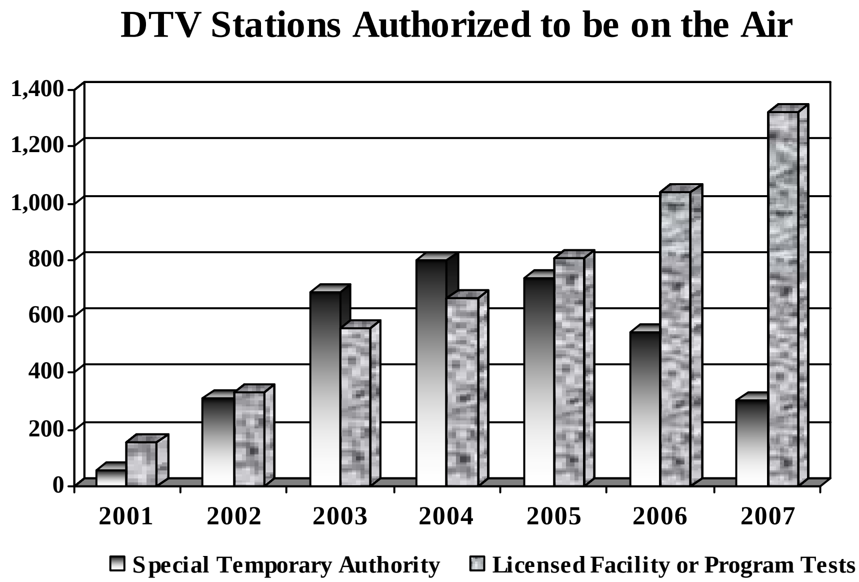
- International Matters – The Commission led efforts on broadcasting services within ITU-R Study Group 6 and its working parties. Specifically, staff worked on issues related to standards for large screen digital imagery on an international basis. Technical work within Study Group 6 is ongoing on interactive and multimedia broadcasting (Working Party 6M), recording for production, archival and play-out and film for television (Working Party 6R), and satellite delivery (Working Party 6S).

- Cross-Border Activities with Mexico and Canada – Commission staff, in conjunction with the State Department, engaged in numerous discussions with both Mexico and Canada on a number of cross-border issues. Commission staff continued to implement existing DTV Memoranda of Understanding with Canada and Mexico to ensure that broadcasters can maximize facilities along the border. Commission staff also coordinated the applications for the new DTV facilities that affect cross-border operations. Commission staff held ongoing discussions to permit digital In Band on Channel audio systems to become operational for AM and FM stations in the border area. The Commission granted three applications under section 325(c) to deliver programs to foreign broadcast stations. Commission staff engaged in negotiations to create a new Memorandum of Understanding with the Mexican Secretaria de Comunicaciones y Transportes to increase opportunities for Low Power TV operations in the border area.

*FY 2007 PERFORMANCE INDICATORS*

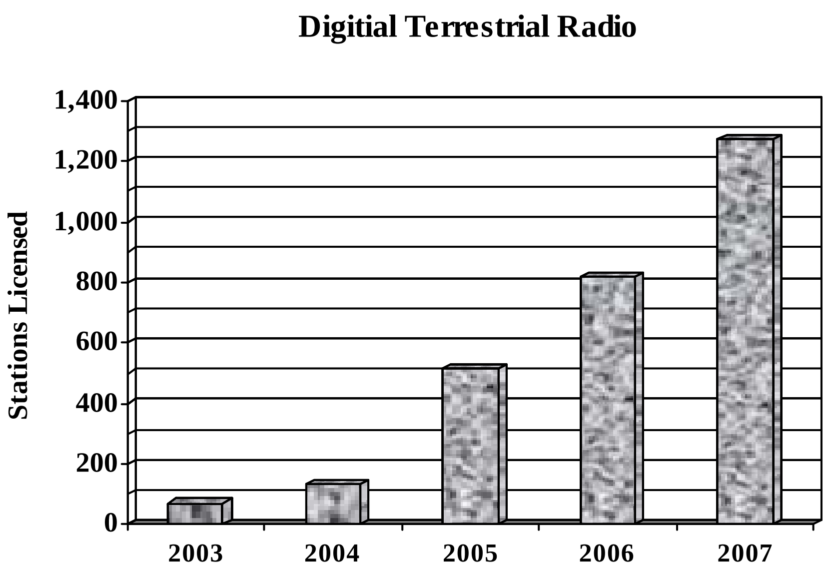
**Continue progress in the transition to digital television and radio**

As of June 30, 2007, 1,704 TV stations (99% of the 1,722 TV stations) have been granted a DTV license or construction permit. There are a total of 1,624 stations on the air with digital operations. Of these, 1,321 are licensed digital facilities or facilities with program test authority and 303 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 2007, rising to a total of 1,272 stations operating with digital radio authorizations by June 30, 2007.



# *PUBLIC SAFETY AND HOMELAND SECURITY*

## *Strategic Goal:*

***Communications during emergencies and crises must be available for public safety, health, defense, and emergency personnel, as well as all consumers in need. The Nation's critical communications infrastructure must be reliable, interoperable, redundant, and rapidly restorable.***

Americans are well aware of the importance of reliable, readily available, and interoperable communications for emergency personnel responding to tragedies, 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 communications infrastructure further underscores the importance of that infrastructure and the Commission's role in ensuring that it is operational.

Through its regulatory proceedings and important partnerships with other government entities and industry, the Commission works to fulfill its responsibilities in promoting public safety, homeland security, and network protection, interoperability, redundancy, and reliability. The Commission aims to do the following:

- Develop policies that promote access to effective communications services in emergency situations by public safety, health, defense, and other emergency personnel, as well as consumers in need;
- Evaluate and strengthen measures for protecting the Nation's communications infrastructure;
- Facilitate rapid restoration of the U.S. communications infrastructure and facilities after disruption by any cause;
- Coordinate with industry and other federal, state, tribal, and local agencies on matters of public safety and homeland security.

### *FY 2007 PERFORMANCE GOALS*

- Promote the reliability, security, and survivability of the communications infrastructure.
- Facilitate deployment of public safety technology.

## *FY 2007 PERFORMANCE HIGHLIGHTS*

***Promote the reliability, security, and survivability of the communications infrastructure:***

- Completed Establishment of the Public Safety and Homeland Security Bureau – The Commission completed all actions to establish the Public Safety and Homeland Security Bureau (PSHSB) to provide an efficient, effective and responsive organizational structure to address matters related to public safety, homeland security, emergency management and preparedness, and disaster management. Subsequently, on February 23, 2007, Federal Communications Commission Chairman Kevin J. Martin appointed Derek Poarch as the FCC's Public Safety and Homeland Security Bureau Chief.

- Disaster Information Reporting System (DIRS) – On September 11, 2007, the PSHSB launched the automated Disaster Information Reporting System (DIRS). DIRS is a voluntary system that communication companies can use to report infrastructure status and situational awareness information during times of crisis. It will streamline the reporting process and enable communications providers to share network status information with the Commission quickly and efficiently.

- Emergency Relief and Disaster Recovery – The Commission, through the PSHSB, continued its efforts to ensure that communities in hurricane-prone areas could prepare for storms, and be able to restore vital communications services if necessary. Specifically, the agency worked with FEMA in 14 hurricane-prone states and two territories (the U.S. Virgin Islands and Puerto Rico) to develop state emergency communications plans in advance of the 2007 hurricane season.

- Hurricane Katrina Order – On June 8, 2007, the Commission released an order adopting the recommendations of the *Independent Panel Reviewing the Impact of Hurricane Katrina on Communications Networks* (*Katrina Panel*). In adopting the panel's recommendations, the Commission began a series of initiatives designed to improve disaster preparedness, network reliability and resilience, and communications among emergency responders.

- Emergency Preparedness – Commission staff members assisted in the drafting and editing of several Emergency Preparedness documents. Included in these documents are the Emergency Support Function-2 (ESF-2) and Emergency Support Function-15 (ESF-15) Operations Plans, Standard Operating Procedures (SOPs), Concept of Operations (CONOPS), and plans for the Gulf Coast region. The agency also placed emergency communications planning guidelines on its web site to assist licensees to prepare for emergencies.

- Disaster Recovery Training – The agency engaged in ESF-2 training and exercise preparation in New Orleans where the agency trained more than 150 federal, state, and local emergency communications officials to organize, establish and maintain the communications capabilities necessary for responding to and recovering from emergencies and disasters.

- 700 MHz Proceeding – The FCC facilitated various State Public Safety Regional Planning Committee 700 MHz Regional Public Safety Planning meetings. Further, on April 25, 2007, the agency adopted a Report and Order and Further Notice of Proposed Rulemaking addressing rules governing wireless licenses in three ongoing 700 MHz Band proceedings: (1) the 700 MHz Commercial Services proceeding, (2) the 700 MHz Guard Bands proceeding, and (3) the 700 MHz Public Safety proceeding. These decisions and proposals allowed the FCC to offer a variety of licenses in the 700 MHz auction and facilitated the provision of new and innovative services to consumers across the country, as well as clearing the path for nationwide, interoperable wireless broadband services for the public safety community.

- Continuity of Operations Plan (COOP) – In June 2007, the agency participated in a multi-agency emergency preparedness exercise. The agency also revised its COOP Procedure guidelines and placed the revised plan on its web site.

- Tribal Coordination – The agency conducted meetings and presentations with tribal government representatives to discuss critical communications infrastructure protection issues. As part of its Indian Telecommunications Initiative, the agency coordinated with other federal, state and local agencies to conduct a two-day workshop on public safety communications on tribal lands in Polson, Montana.

- Cross-Border Coordination for 800 MHz – Throughout FY 2007, Commission staff, in conjunction with the State Department, worked to amend existing Bilateral Agreements with both Canada and Mexico to facilitate the Commission's 800 MHz transition. Band reconfiguration in the Mexico border region is essential to ensuring interoperability among public safety systems and to protect such systems from interference.

- Cross-Border Security Communications for Law Enforcement – Throughout FY 2007, the Commission collaborated with the State Department and Department of Homeland Security to find solutions to allow U.S. public safety entities and Mexican security officers to continue to communicate across the border for homeland security purposes.

- Verizon Consent Decree – Entered into a consent decree with Verizon concerning allegations of possible violations of Part 4 of the Commission’s rules regarding the reporting of network outages. Verizon agreed to pay $1.4 million and develop a compliance training program as well as internal controls to improve outage reporting.

- Enforcement of Public Safety Rules – The Commission took aggressive enforcement action to ensure compliance with its public safety rules in areas such as tower painting, lighting, and fencing requirements; RF emission limits; and unauthorized operation of radiofrequency signals. Among other actions, the Commission enforced its rules governing E911, resulting in contributions by four entities to the U.S. Treasury totaling approximately $800,000. The Enforcement Bureau investigated and resolved over 600 interference or other complaints related to public safety communications.

- Emergency Alert System (EAS) Enforcement – The Commission took 17 enforcement actions regarding its Emergency Alert System rules, totaling nearly $200,000.

- Toll-Free Number Assignment: Red Cross – The Commission granted the requests of the American National Red Cross and permanently assigned the numbers 1-800-RED-CROSS and 1-888-RED-CROSS to that organization. The Commission found that the permanent assignment of these toll-free numbers would serve the overwhelming public interest in assisting the disaster recovery efforts of the Red Cross related to hurricanes and other natural disasters. The permanent reassignment of these toll-free numbers helps the American Red Cross fulfill its mission as the primary agency in the nation’s National Response Plan, created by the Department of Homeland Security and adopted by the President, for responding to national disasters with emergency aid.

- Suicide Prevention Hotline Numbers – The Commission granted in part an emergency request to reassign five toll-free numbers utilized as suicide prevention hotlines to the Substance Abuse and Mental Health Services Administration (SAMHSA), a component of the United States Department of Health and Human Services, for a period of one year. The Commission concluded that temporarily reassigning the suicide prevention hotlines to SAMHSA was critical to minimize the potential loss of life due to callers in need being unable to connect immediately with a crisis center that can dispatch emergency services. During the duration of this temporary reassignment, the Commission will examine the continued utility and effectiveness of this action to determine whether any extension is warranted or whether it should revisit or modify this reassignment.

***Facilitate deployment of public safety technology:***

- Wireless Enhanced 911 (E911) Proceedings – The agency continued to monitor deployment of wireless E911 and Mobile Satellite Service E911 call centers. E911 Phase II deployment (delivery of latitude and longitude location information to the Public Safety Answering Point (PSAP)) continues to follow an accelerating trend. According to the National Emergency Number Association, as of July 2007, more than 76% of the total PSAPs in the country are receiving Phase II E911 location information from at least one carrier. The agency also issued nine orders addressing petitions for waiver of the wireless E911 location-capable handset penetration deadline.

- Communications Assistance for Law Enforcement Acts (CALEA) Proceeding – On May 15, 2007, the United States Department of Justice, the Federal Bureau of Investigation, and the Drug Enforcement Administration filed a "Petition for Expedited Rulemaking" requesting the Commission to initiate a proceeding to find that the J-STD-025-B standard, published jointly by the Telecommunication Industry Association and the Alliance for Telecommunications, is deficient pursuant to section 107(b) of the Communications Assistance for Law Enforcement Act ("CALEA"), 47 U.S.C. 1006(b). The agency subsequently released a public notice initiating a pleading cycle for this petition.

- Emergency Alert System (EAS) – On July 12, 2007, the agency released an Order revising the Commission's Part 11 Emergency Alert System (EAS) rules as part of our continuing effort to provide the American public a state-of-the-art, next-generation national EAS and to comply with the President's Public Alert and Warning System Executive Order (EO 13407). Specifically, the agency added to the list of EAS participants wireline common carriers that provide video programming, and required all EAS participants to accept alerts using CAP (a common EAS messaging protocol), adopt Next Generation EAS delivery systems, and transmit state and local EAS alerts that are originated by governors or their designees no later than 180 days after FEMA publishes its adoption of the CAP and other next generation alerting standards.

- WARN Act and Commercial Mobile Service Alert Advisory Committee – In the Warning, Alert and Response Network Act (WARN Act) Congress mandated the establishment of the Commercial Mobile Service Alert Advisory Committee. The agency established the committee, organized and hosted the first committee meeting within 60 days, as required, established informal working groups to facilitate the committee's work, and held three subsequent committee meetings.

- Public Safety Clearinghouse – PSHSB created a Public Safety Clearinghouse on its web site, providing examples of emergency communications plans developed and implemented by state governments, law enforcement agencies, health care facilities and first responders. The plans highlight best practices in the field of emergency communications.

- 800 MHz Rebanding Implementation – The agency continued to actively oversee the implementation of 800 MHz rebanding, which commenced in June 2005. The Commission coordinated various 800 MHz Public Safety Regional Planning Committee meetings, provided direction to the 800 MHz Transition Administrator (TA), particularly regarding the resolution of disputes, worked with Sprint-Nextel and public safety stakeholders to address implementation issues, and clarified the rights of public safety entities holding authorizations in the 800 MHz Expansion Band. In addition, in January 2007, the agency adopted an order that determined that 800 MHz public safety licensees engaged in rebanding pursuant to the Commission's orders in this docket may disclose or exchange information with other 800 MHz public safety licensees regarding the terms of Frequency Relocation Agreements (FRAs) and Planning Funding Agreements (PFAs) negotiated with Sprint Nextel Corporation (Sprint).

- Education and Outreach – The agency continued to reach out to state, local and tribal government entities, consumer groups, public safety organizations, and industry representatives to facilitate widespread consumer awareness of Commission rules and policies for strengthening, preserving or restoring the Nation's communications infrastructure. Commission staff attended or provided presentations for numerous meetings and conferences during FY 2007, speaking to more than 16,300 attendees. In addition, the Commission's public safety and homeland security web pages recorded over 560,000 views in FY 2007.

- Multispectral Solutions, Inc. – The Commission granted a waiver of certain of its part 15 rules to allow Multispectral Solutions, Inc. (MSSI) to obtain FCC certification and market a higher power model of its Precision Asset Location System. In doing so, the Commission permits MSSI to better track and identify critical assets and personnel in high risk industrial sites (such as petroleum and chemical production and storage facilities, power plants, and mines) thereby more effectively and reliably protecting human life and property in these high risk industrial settings.

- 700 MHz Band – On April 27, 2007, the Commission released a Report and Order and Further Notice of Proposed Rulemaking addressing rules governing wireless licenses in the 698-806 MHz Band (700 MHz Band), including the public safety portion of the band. With regard to the 700 MHz Band spectrum allocated to public safety, the Commission tentatively concluded to redesignate the wideband spectrum to broadband use consistent with a nationwide interoperability standard, and to prohibit wideband operations on a going forward basis. The Commission also tentatively concluded to consolidate the 700 MHz public safety spectrum, with the narrowband spectrum being consolidated to the top of the public safety allocation, and the broadband spectrum located at the bottom of the public safety allocation.

- Part 90 Rulemaking Proceeding – In May 2007, the Commission initiated a rulemaking proceeding proposing miscellaneous changes to its Part 90 rules and other rules that govern new and existing wireless technologies, devices and services. Specifically, the Commission sought comment regarding changes to its rules governing the 4.9 GHz band and the Wireless Medical Telemetry Service which shares spectrum with Part 90 operations.

- International Maritime Organization (IMO) – The agency collaborated with the U.S. Coast Guard and the Department of Homeland Security on matters before the IMO. The IMO has undertaken a comprehensive effort to build a maritime security infrastructure so that governments and industry would have proper guidance to meet the challenges to protect shipping against international terrorism.

- Coordination of international facilities applications and petitions with the Executive Branch – The Commission coordinated with the Executive Branch 180 applications and petitions involving foreign ownership of international telecommunications facilities.

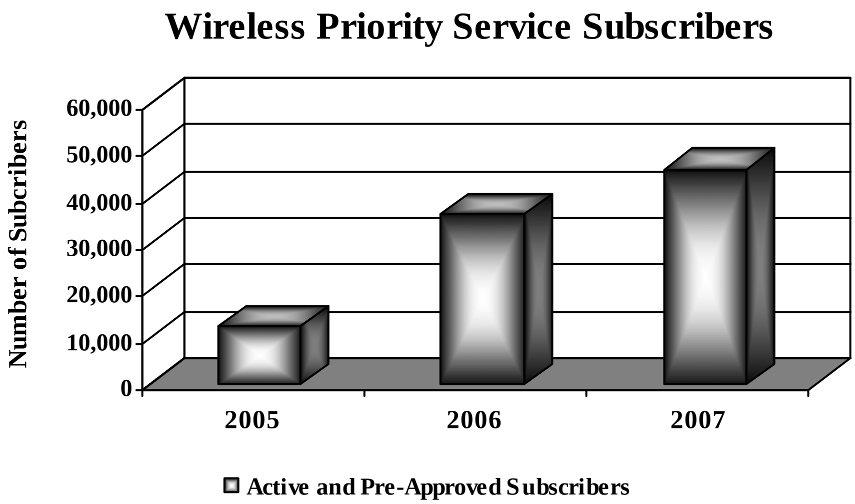
- Provide Support To Other Federal Agencies – The Commission provides support to other Federal agencies on a number of spectrum-related public safety issues.

- Exploring Alternatives To Assess Communications Capabilities In An Emergency – The Commission is exploring technical solutions that would help it to assess a community's communications capabilities in an emergency.

- Specific Examples of Outreach and Coordination Activities –
    - On April 20, 2007, the agency hosted a "First Responders Summit: Interoperable and Reliable Public Safety Communications." The summit included expert panel discussions led by representatives from the public safety community, the communications industry, and government, and an open roundtable forum for participants to raise key issues related to emergency preparedness and response.
    - On June 1, 2007, the agency held a summit on Spectrum Policy and Management: Building Public Safety Communications. The summit included expert panels composed of representatives from the public safety community, government, and the communications industry who discussed issues related to the creation, implementation and management of public safety spectrum, as well as the benefits of enhancing public/private partnerships to support a nationwide interoperable public safety communications network.
    - The Commission continued to work with and participate in regular conference calls with the National Association of Regulatory Utility Commissioners (NARUC) Ad Hoc Critical Infrastructure Committee promoting the Commission's strategic goals for homeland security and public safety. The Commission is working closely with the Critical Infrastructure Committee, which is working under a grant from the Department of Homeland Security, on an initiative to, among other things, help the country prepare for natural, intentional, or accidental threats to critical telecommunications infrastructure.
    - PSHSB updated and posted on its web site the list of key points of contact at the Commission. In addition, the FCC worked with NARUC to update the FCC/NARUC emergency contact list.
    - The Commission continued to participate in the Joint FCC/NARUC task force on VoIP E911 enforcement and worked with NARUC representatives to co-brand informational fact sheets on VoIP E911 requirements.

## *FY 2007 PERFORMANCE INDICATORS*

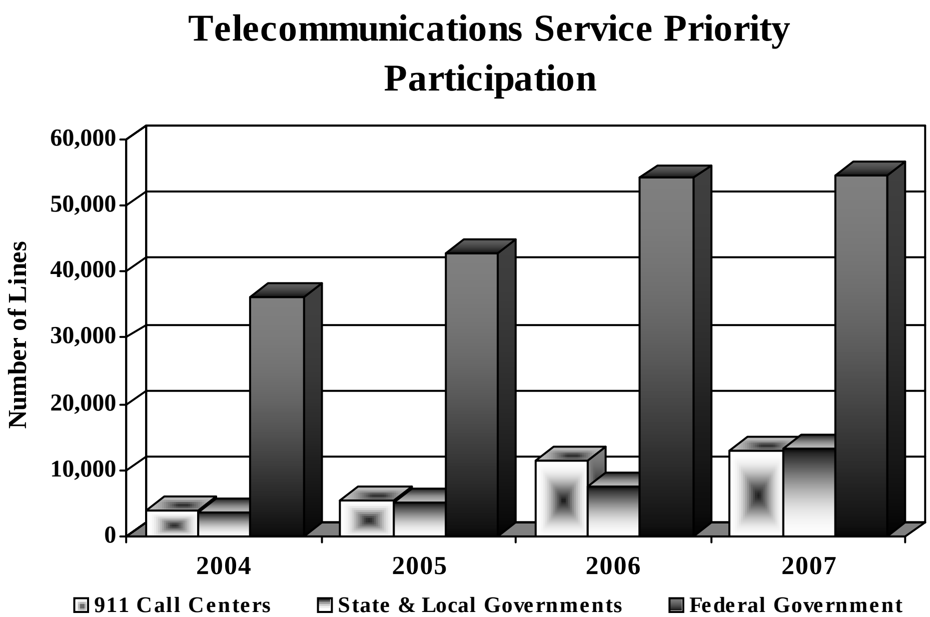
**Increasing Wireless Service Priority Participation**




WPS is a Federal program that authorizes cellular communications service providers to prioritize calls over wireless networks. Participation in the WPS program is voluntary. The FCC sets the rules and policies for the WPS program; the National Communications System, a part of the U.S. Department of Homeland Security, manages the WPS program. In FY 2007, the Commission began an outreach program to increase participation in WPS. From August 2006 to August 2007, WPS subscribership increased from 36,458 to 46,142, an increase of 27%. The WPS program facilitates the deployment of public safety technology and increases the chances that critical users, such as first responders, will be able to use cell phone services in an emergency.

**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. Although all 911 call centers would qualify for the TSP program, only a small percentage of 911 call centers participate. In FY 2004, the Commission began an outreach program to inform 911 administrators of the TSP program and to expedite their enrollment. At the beginning of August 2006, a total of 11,454 911 call center circuits were covered by the TSP program. At the end of July 2007, a total of 12,905 911 call center circuits were covered by the TSP program. This amounted to a 13% increase in 911 call center circuits enrolled in TSP.




At the beginning of August 2006, state and local governments had 7,630 circuits enrolled in the TSP program; by the end of July 2007, a total of 13,318 state and local government circuits were covered. This change amounted to a 75% increase in covered state and local circuits. The TSP program increases the reliability of essential NS/EP communications services by minimizing out-of-service times. As a result, these circuits were made more reliable, thus helping to achieve the Commission's TSP objectives.

# MODERNIZE THE FCC

## Strategic Goal:

***The Commission shall strive to be a highly productive, adaptive, and innovative organization that maximizes the benefit to stakeholders, staff, and management from effective systems, processes, resources, and organizational culture.***

The Commission has committed 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.

### *FY 2007 PERFORMANCE GOALS*

- Become an easier organization to do business with by integrating systems, processes, and interfaces.
- Create and sustain an organizational culture that encourages innovation, accountability, and continual improvement.
- Ensure effective communications with consumers, Congress, the communications industry, and Federal, State, tribal, and local agencies.

### *FY 2007 PERFORMANCE HIGHLIGHTS*

***Easier Organization to Do Business With:***

- <u>Made accessing the Commission via the Internet easier and safer</u> – Upgraded firewall software to provide overall enhanced performance, reliability and security for all of the FCC’s inbound and outbound Internet traffic.
- <u>Provided straightforward instructions and interactive tools to help the public perform specific tasks through the FCC web site</u> **–** The Commission developed web sites and interactive forms to assist the public and entities regulated by the Commission.
  - Implemented improved consumer complaint form to make filing complaints over the Internet easier and more effective.
  - Harmonized Junk Fax and Do Not Call consumer complaint guidance to make filing complaints easier for the public.
  - The Commission launched a new web page providing comprehensive information and instructions to help recent engineering school graduates with an interest in communications to learn about and apply for the Commission’s Engineer-in-Training Program which provides comprehensive training experiences in the field of communications engineering.
  - The agency introduced a fees wire transfer web page redesigned to include more detailed information on the transfer process as well as steps that entities regulated by the Commission must take in order to authorize their banks to wire funds to the Commission.

- The FCC created interactive, on-line forms for the public to use to register for FCC-sponsored fora and events, thereby reducing the logistical burden of taking registration information by phone.

- Consolidated data on related issues into FCC web pages that provide the public with one-stop access to high-interest issues – Commission staff collaborated to transform separate sources of information on specific topics into streamlined web pages providing the public with common locations from which to more easily access information.
    - The Commission developed a single on-line resource for Hurricane Emergency Information that provides critical information to consumers, communications entities, and state and local governments in areas affected by hurricanes.
    - FCC Bureaus and Offices collaborated to provide users with a common location from which to access information on all of the Commission's licensing systems.

- Upgraded the Commission's automated licensing and permitting functionality –
    - Enhancements were made to the Commission's Universal Licensing System (ULS) to support the authorization activities of the new Public Safety and Homeland Security Bureau.
    - Deployed the new Frequency Assignment Coordination System. This system supports the coordination process between the FCC and National Telecommunications and Information Administration for frequency assignment requests that might potentially cause interference with Federal Government frequency users.
    - Efforts are ongoing to reconfigure the 800 MHz Band to reduce harmful interference to public safety radio systems. Data and functions in ULS are being updated to accommodate the data provided by the 800 MHz Band Transition Administrator and Nextel. Search functions are being developed that will allow interested parties to search vacated spectrum for possible relocation options.
    - Improvements were made to the secondary market searches in ULS to facilitate spectrum leasing arrangements. The improvements include GeoSearch functionality for leases and for assignment of license and transfer of control applications.
    - Reengineered the FCC's Children's Television (KidVid) database system to support implementation of electronic filing of station information on children's television programming aired on digital program streams. This also provided enhanced public access to station information.
    - Provided the capability to electronically file license renewal applications for the Cable Television Relay Service.
    - Started to deploy enhancements to the Integrated Spectrum Auction System in order to implement tiered package bidding in anticipation of the upcoming 700 MHz auction.
    - Added a consummation module and new filing capabilities to MyIBFS, the electronic filing site for international and satellite applications. The consummation module provides licensees with a computer-based mechanism to notify the Commission of the consummation of authorized transfers of control and assignments of licenses. The addition of several new filing capabilities provides an e-filing portal for applications, eliminating the paper filing process.
    - Upgraded 70% of hardware used for licensing applications.

***Culture That Encourages Innovation, Accountability, and Continuous Improvements:***

- Strengthened internal controls and financial management – The Commission continued its efforts to improve its internal controls and financial management. The Commission again conducted systematic risk assessments of its operations and worked to mitigate any risks that were identified during the FY 2006 risk assessment process. Moving forward, the Commission is designing new methods to perform even deeper testing of its internal controls for future risk assessments.

- Issued policy directives to improve operations – Issued 12 directives providing policy direction in critical areas of the Commission operations.
    - Adopted an Anti-Fraud directive setting forth policies, procedures and responsibilities relating to fraud. The objective of this program is to ensure public confidence in the Commission by preventing fraud, detecting and removing existing fraud, and promoting ethical conduct among Commission employees.
    - Adopted performance measurement policies and criteria to help determine the quality of performance in the Commission's application and complaint processing programs.
    - Other policy directives dealt with information security, the management of non-public information, prompt payment procedures, and administrative control of funds.

- Resolved findings and weaknesses identified by auditors – The Commission continued its focus on closing findings and weaknesses identified by the Office of Inspector General (OIG) and its auditors. A team of internal audit staff managed this process and coordinated the closing of audit findings that cut across functional areas of the Commission's operations, including finance, human resources, administrative operations, and information technology. As of October 1, 2006, there were 163 open OIG and GAO recommendations. During FY 2007, the Commission closed 63% of those recommendations that were open as of October 1, 2006. In total for the year, the Commission completed action on 126 OIG or GAO recommendations. As of the end of FY 2007, 71 recommendations older than one year remained open. The Commission plans to close a large majority of these recommendations during FY 2008. The Commission met its goal by responding to 100% of OIG audit recommendations in a timely manner.

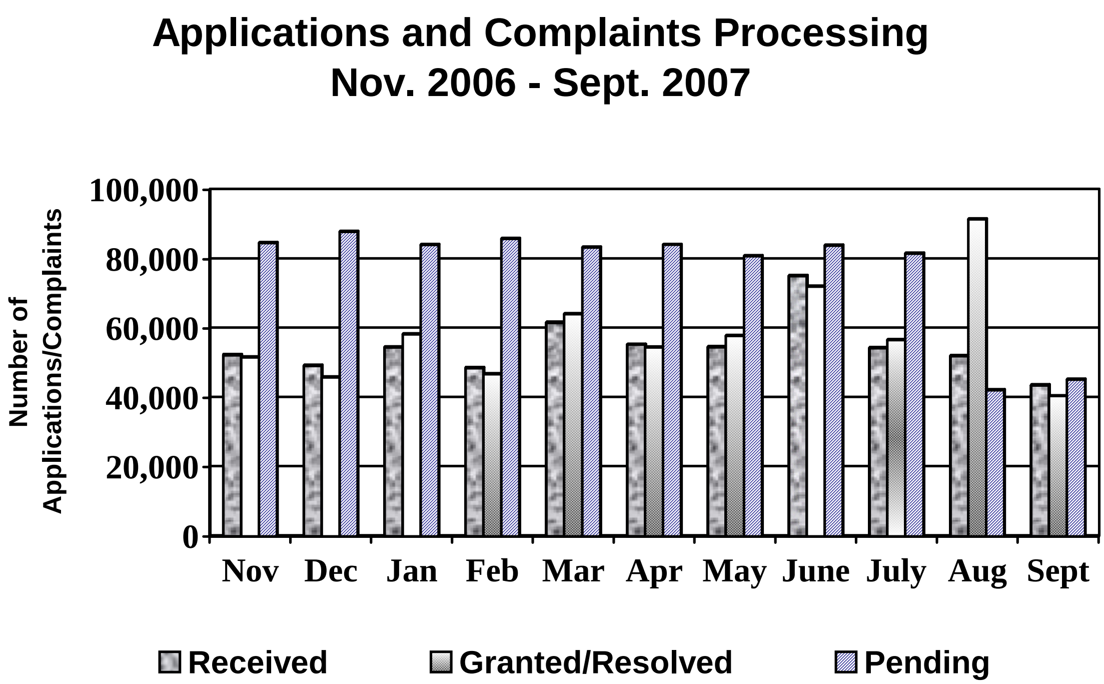
- Obtained full certification of the Commission's SES pay-for-performance system – The FCC received full certification from the Office of Personnel Management (OPM) for 2007 and 2008. OPM authorizes full certification only for those agencies that have demonstrated success in the design and implementation of a pay-for-performance system that rigorously assesses senior executive performance and places a sufficient emphasis on achieving measurable results.

- Continued emphasis on Human Capital Strategic Planning – A final version of the Commission's Strategic Human Capital Plan is ready for approval and release. This plan provides the vision and direction needed to ensure the Commission will have the human resources necessary to carry out its vital mission in future years.

- Core Financial System Replacement Project – The Commission made substantial progress in moving toward its goal of implementing a new core financial system by October 1, 2009. During FY 2007, the Commission used a systematic methodology to document and analyze its current financial processes. This analysis provided the Commission with the insight it needed to identify areas for potential process reengineering and to define its needs for a new financial system. The Commission coordinated with OMB on its acquisition plans and released its solicitation for proposals for a new core financial system on September 27, 2007. When the new system is implemented, it will help modernize the systems aspects of the Commission's financial operations.

- Universal Service Administrative Company Memorandum of Understanding – In an effort to continue to harmonize the financial operations of the Commission's reporting components with its own operations, the Commission executed a memorandum of understanding (MOU) with the Universal Service Administrative Company (USAC). This MOU requires USAC to provide the Commission with enhanced reporting about its internal control environment and establishes new performance metrics for USAC's operations that the Commission will monitor. The Commission and USAC are in the process of working through the implementation schedule for these new management improvements.

- Established performance measurement procedures – In November 2006, the Commission began collecting key performance data from the Commission's bureaus and offices. The chart shown below summarizes this data.




- Improved management of Commission assets – The Commission implemented new asset management procedures that vastly improved inventory and control of assets assigned to employees, particularly portable IT and telecommunication devices that are easily lost or stolen. As a result, the number of assets that could not be accounted for was reduced by 51.4% during FY 2007.

- Gave employees the tools they needed to be innovative and accountable – The Commission improved its automated tools that employees need to effectively do their jobs:
  - As part of the FCC's lifecycle replacement program, completed replacement of approximately 1,400 personal computers. This completed hardware upgrades for all of the Commission's standard users.
  - Implemented new proxy servers to improve internet firewall performance, availability and security.
  - Designed and implemented a secure Virtual Private Network (VPN) for administering the FCC's network.

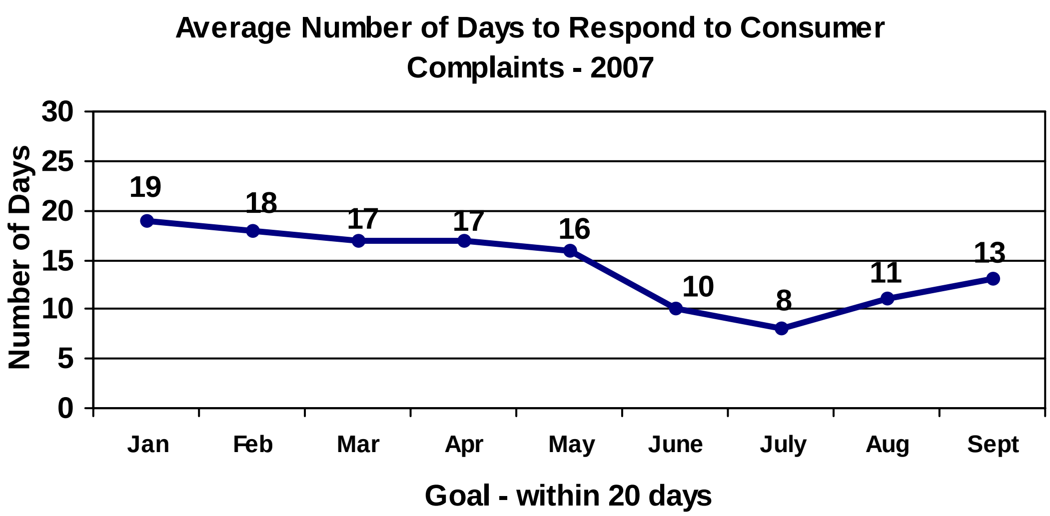
- o Significantly revised and updated the FCC's IT Strategic Plan.
- o Created an IT Tactical plan to prioritize, track and monitor progress on all FCC IT initiatives, from maintenance through new systems development and hardware deployment.

***Ensure effective communications:***

- Improved communications with consumers – Commission staff updated numerous consumer fact sheets to make the language simpler, more concise, and more consumer-friendly. The fact sheet concerning Filing an Informal Complaint was revised to encourage consumers to file complaints electronically and to inform them of the information they must provide to ensure timely processing of their complaints.

- Became more accessible to all consumers – We continue to make the Commission's consumer materials and web pages more accessible. Updates to Spanish-language publications and web pages are made at the same time as changes in English-language documents to assure consistency. Some information is now presented in larger fonts for those users with impaired vision. We are continuing our efforts to assure that every item is accessible for consumers using screen readers.

- Improving responsiveness to consumer complaints – The Commission established performance measures and streamlined processes to improve responsiveness to consumer complaints. Average processing time for responding to complaints in January through September 2007 is shown below:




- Improved the quality of the Commission's web site – The Commission's web site ranked in the top ten in an analysis of more than 50 Federal web sites by the Taubman Center for Public Policy at Brown University. The Commission also earned the seventh-highest score in a University of Pennsylvania Law School study of ease of access to regulatory information on 89 Federal Government web sites. The sites were evaluated based on the variety, quality and accessibility of electronic services offered to the public. The FCC web site received well over 200 million page views in FY 2007. Web site improvements implemented by the Commission include:
  - o Developing on its Lifeline Across America web site a streaming, captioned video concerning the Lifeline and Link-Up programs, how to determine eligibility for the

programs, and how to apply. Lifeline and Link-Up are programs that help ensure that all Americans have access to telephone service.

  - Provided the public with real-time, captioned audio webcasts of important off-site FCC hearings and fora which would not normally be available.
  - Created a Rural Health Care Pilot Program web site so that public and private non-profit health care providers in rural locations have better access to the information they need to fully participate in the pilot.
  - Created a new web site concerning broadband issues with information focusing on broadband connections to the consumer, including connections provided using digital subscriber lines, fiber-based broadband services and broadband over power lines.
  - Created a new web site providing the public with information about the issues and activities of the Media & Childhood Obesity Task Force.
  - Offered consumers the opportunity to receive news updates thought the FCC Consumer Registry.
  - Developed a web-based method of presenting and maintaining information mandated by the Office of Management and Budget concerning the Homeland Security Presidential Directives, peer-review of a variety of FCC information products, and the Commission's active solicitations for contracts. This provides an increased level of transparency for FCC business operations.

- <u>Improved the public's access to Commission information by implementing commitments identified in response to Executive Order 13392</u> – In 2006 the Commission committed to make seven improvements to its Freedom of Information Act (FOIA) program. The Commission completed six of the seven enhancements:
  - Ensuring that 85% of FOIA requests are handled within the allowed time limits.
  - Resolving all pending FOIA applications for reviews.
  - Implementing an acknowledgement process for FOIA requests.
  - Posting a FOIA Quick Fact Sheet (http://www.fcc.gov/foia/quickfactsheet.pdf).
  - Revising the Commission's internal FOIA directive.
  - Publishing the FCC FOIA Handbook (http://www.fcc.gov/foia/foiahandbook.pdf).

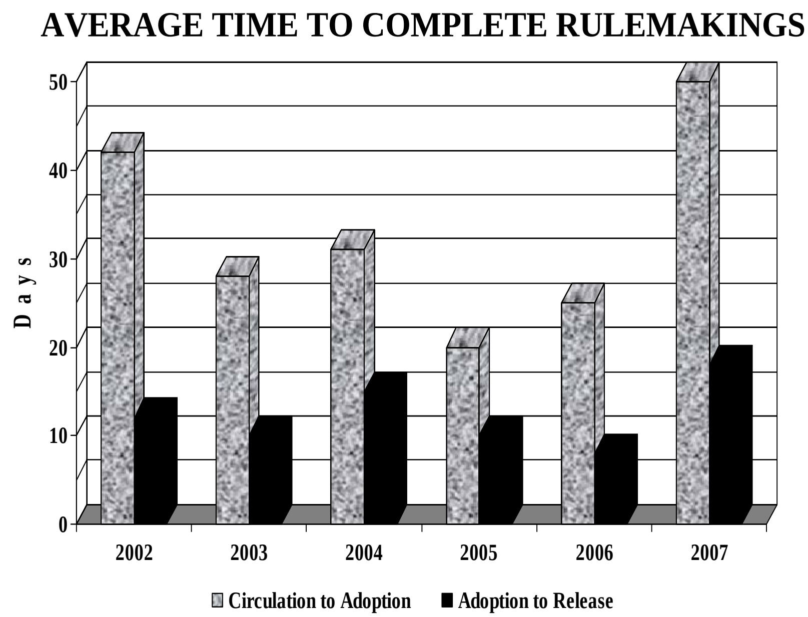
  Work on the Commission's final commitment - to review and revise the Commission's FOIA rules - is underway and should be completed by the deadline of December 30, 2007.

- <u>Continued to protect and respect privacy rights</u> – The Commission continued its strong commitment to protecting the privacy rights of individual stakeholders, employees, and contractors by ensuring that 100% of employees and contractors were formally trained regarding their privacy obligations. The FCC also published its first four Privacy Impact Assessments. The Commission reviewed its use of Social Security Numbers and reduced the use of such numbers to only those occasions where an external requirement exists for the usage.

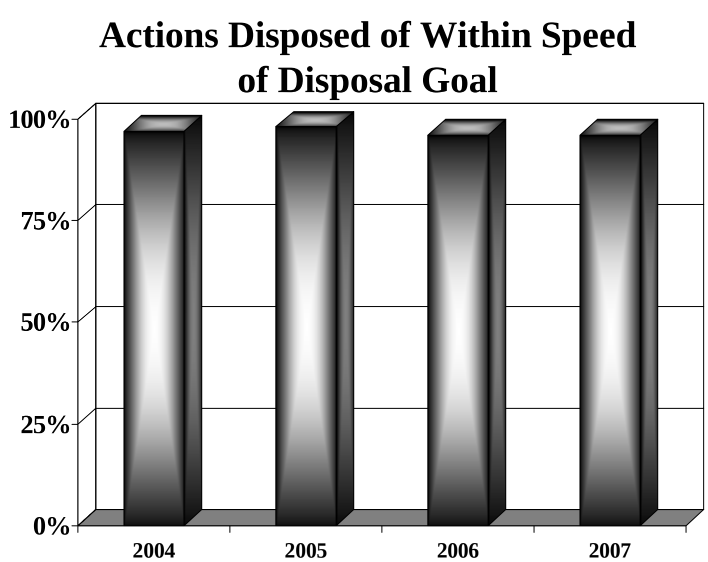
## *FY 2007 PERFORMANCE INDICATORS*

**Reduce the average time required to complete rulemakings**

The FCC completed nearly twice the number of rulemaking items in FY 2007 compared to the previous year (204, up from 105) with no increase in staff resources. This tremendous increase in the quantity of items caused processing time for "circulation to adoption" to increase by 104% (from 25 to 51 days) and "adoption to release" to increase by 125% (from 8 to 18 days) between FY 2006 and FY 2007.



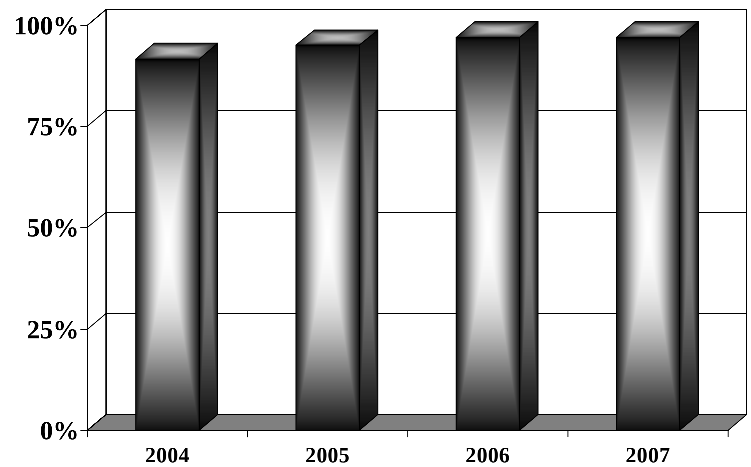

**Increase efficiency in the processing of workload**




In FY 2007, 96% of the agency's actions were disposed of within the processing goals. Performance over the last four years exceeded the agency's speed of disposal goal of 95%.

In FY 2007 the Commission received 97% of applications and notifications via electronic filing. Since FY 2004, the Commission has exceeded its 90% goal for electronic filing.

**Actions Filed Electronically**



# 3. Financial Statements and Auditor's Reports

## Message from the Chief Financial Officer

I am pleased to present the Commission's financial statements for fiscal year 2007 and to report that the Commission's auditors issued an unqualified opinion on each of the Commission's financial statements for FY 2007. Furthermore, I am proud to say that for the second straight year, the Commission does not have any material weaknesses and that the auditor's report for FY 2007 contains the fewest number of audit recommendations the Commission has ever received.

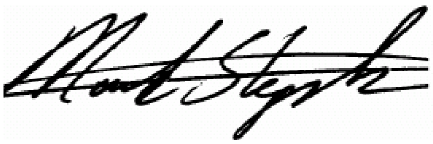
As evidenced by the auditor's FY 2007 report, the Commission continued to make steady advancements during fiscal year 2007 in improving its financial operations and strengthening its internal control environment. Throughout the year, the Commission worked diligently on closing audit findings from previous audits and made significant progress on resolving matters raised by its auditors in their FY 2006 audit report. As a result of the efforts of the dedicated staff of the Commission and its reporting components, the Commission reduced the number of recommendations that it received from its auditors by over fifty percent from FY 2006 to FY 2007. Finally, the Commission made significant progress in increasing its compliance with applicable laws and regulations and reduced the number of outstanding compliance issues from three to two. I am proud of these accomplishments and of the efforts of the staff working as a team to produce these achievements.

Despite these successes, work remains here at the Commission. The fiscal year 2007 audit report points out three significant deficiencies related to internal controls and two instances of non-compliance that still need to be resolved. The primary areas of concern relate to financial reporting, the modernization of both the Commission's and its reporting components' financial management systems, and instances of non-compliance with the Debt Collection Improvement Act and OMB Circular A-130.

The Commission's greatest challenge to resolving the auditor's findings and improving the performance of its financial reporting is to implement a new core financial management system. The Commission is currently relying on a core financial management system that will soon be obsolete and will not be supported by its vendor in the long term. The Commission is approaching the replacement of its core financial management systems as an opportunity to deliver on its strategic goal of modernizing the Commission and to establish a legacy of effectiveness.

The need to replace the core financial management system has allowed the Commission to re-evaluate its business needs and set a new course for the future. During FY 2007, the Commission used a systematic methodology to document and analyze its current financial processes. This analysis provided the Commission with the insight it needed to identify areas for potential process reengineering and to define its needs for a new financial system. Building upon this analysis, the Commission developed an acquisition and implementation strategy to move to a new core financial management system that will best meet the Commission's business needs and will bring the Commission into substantial compliance with government-wide requirements. The Commission released its solicitation for proposals for a new core financial system at the end of FY 2007. The Commission plans to complete the deployment of the new financial system by October 1, 2009. At the same time, the Commission is closely monitoring the progress of its reporting components' efforts to modernize their financial systems.

I look forward to fiscal year 2008 and making every effort to continue to strengthen the Commission's internal control environment and improve the effectiveness of the Commission's financial operations.



Mark Stephens
Chief Financial Officer
November 15, 2007

# PRINCIPAL STATEMENTS

## FEDERAL COMMUNICATIONS COMMISSION
## CONSOLIDATED BALANCE SHEET

As of September 30, 2007 and 2006
(Dollars in thousands)

| | FY 2007 | FY 2006 |
|---|---|---|
| **ASSETS** (Note 2) | | |
| **Intragovernmental** | | |
| Fund Balance with Treasury (Note 3) | $ 459,523 | $ 606,696 |
| Investments (Note 5) | 5,012,017 | 4,723,516 |
| Accounts Receivable (Note 6) | 4,711 | 229,322 |
| **Total Intragovernmental** | 5,476,251 | 5,559,534 |
| Cash and Other Monetary Assets (Note 4) | 100,200 | 3,152,377 |
| Accounts Receivable, net (Note 6) | 750,762 | 933,943 |
| Loans Receivable, net (Note 7) | 216,845 | 149,421 |
| General Property, Plant, and Equipment, net (Note 8) | 31,619 | 38,156 |
| Other | 8,674 | 10,013 |
| **Total Assets** | $ 6,584,351 | $ 9,843,444 |
| **LIABILITIES** (Note 9) | | |
| **Intragovernmental** | | |
| Debt (Note 10) | $ 105,914 | $ 448,997 |
| Other (Note 11) | | |
| Custodial | 256,223 | 152,036 |
| Other | 1,840 | 1,810 |
| Total Other | 258,063 | 153,846 |
| **Total Intragovernmental** | 363,977 | 602,843 |
| Accounts Payable | 94,505 | 300,925 |
| Other (Note 11) | | |
| Deferred Revenue | 91,619 | 3,100,144 |
| Prepaid Contributions | 45,417 | 63,461 |
| Deposit/Unapplied Liability | 1,170 | 41,737 |
| Accrued Liabilities for Universal Service | 481,603 | 451,860 |
| Telecommunications Development Account (TDA) Interest | - | 28,623 |
| Other | 42,157 | 42,130 |
| Total Other | 661,966 | 3,727,955 |
| **Total Liabilities** | $ 1,120,448 | $ 4,631,723 |
| Commitments and Contingencies (Note 13) | | |
| **NET POSITION** | | |
| Unexpended Appropriations - Other Funds | $ 17,544 | $ 17,843 |
| Cumulative Results of Operations - Earmarked Funds (Note 20) | 5,193,576 | 5,112,001 |
| Cumulative Results of Operations - Other Funds | 252,783 | 81,877 |
| **Total Net Position** | $ 5,463,903 | $ 5,211,721 |
| **Total Liabilities and Net Position** | $ 6,584,351 | $ 9,843,444 |

The accompanying notes are an integral part of these statements.

## FEDERAL COMMUNICATIONS COMMISSION
## CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2007 and 2006
(Dollars in thousands)

| | FY 2007 | FY 2006 |
|---|---|---|
| **PROGRAM COSTS:** | | |
| **Broadband:** | | |
| Gross costs (Note 14) | $ 22,142 | $ 26,795 |
| Less: Earned Revenue (Note 14) | (23,989) | (30,374) |
| Net Program Costs | (1,847) | (3,579) |
| **Competition:** | | |
| Gross costs (Note 14) | 7,597,748 | 7,259,004 |
| Less: Earned Revenue (Note 14) | (113,911) | (117,840) |
| Net Program Costs | 7,483,837 | 7,141,164 |
| **Spectrum:** | | |
| Gross costs (Note 14) | 28,179 | 446,348 |
| Less: Earned Revenue (Note 14) | (167,793) | (248,297) |
| Net Program Costs | (139,614) | 198,051 |
| **Media:** | | |
| Gross costs (Note 14) | 37,805 | 30,887 |
| Less: Earned Revenue (Note 14) | (39,805) | (33,584) |
| Net Program Costs | (2,000) | (2,697) |
| **Homeland Security:** | | |
| Gross costs (Note 14) | 33,664 | 37,851 |
| Less: Earned Revenue (Note 14) | (34,446) | (41,196) |
| Net Program Costs | (782) | (3,345) |
| **Modernize the FCC:** | | |
| Gross costs (Note 14) | 50,441 | 50,228 |
| Less: Earned Revenue (Note 14) | (50,939) | (54,573) |
| Net Program Costs | (498) | (4,345) |
| **Total Net Program Costs** | 7,339,096 | 7,325,249 |
| **Cost not Assigned to Programs:** | | |
| Telecommunications Development Fund | 11,836 | 28,885 |
| Other Expenses | (1,386) | 4,954 |
| **Less: Earned Revenues not Attributed to Programs:** | | |
| Telecommunications Development Fund | (11,836) | (28,885) |
| **Net Cost of Operations** | $ 7,337,710 | $ 7,330,203 |

The accompanying notes are an integral part of these statements.

# FEDERAL COMMUNICATIONS COMMISSION
# CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2007 and 2006
(Dollars in thousands)

| | FY 2007 Consolidated Earmarked Funds | FY 2007 Consolidated All Other Funds | FY 2007 Consolidated Total | FY 2006 Consolidated Earmarked Funds | FY 2006 Consolidated All Other Funds | FY 2006 Consolidated Total |
|---|---|---|---|---|---|---|
| **Cumulative Results of Operations:** | | | | | | |
| Beginning Balances | $ 5,112,001 | $ 81,877 | $ 5,193,878 | $ 4,276,827 | $ 132,782 | $ 4,409,609 |
| Adjustments: | | | | | | |
| Changes in accounting principles | - | - | - | - | 9,886 | 9,886 |
| Beginning Balance, as adjusted | 5,112,001 | 81,877 | 5,193,878 | 4,276,827 | 142,668 | 4,419,495 |
| **Budgetary Financing Sources:** | | | | | | |
| Other Adjustments (rescissions, etc.) | - | (1,619) | (1,619) | - | (2,463) | (2,463) |
| Appropriations Used | - | 32,518 | 32,518 | - | 142,847 | 142,847 |
| Non-exchange Revenue | 7,570,445 | - | 7,570,445 | 7,982,384 | - | 7,982,384 |
| **Other Financing Sources (Non Exchange):** | | | | | | |
| Transfers in/ out without reimbursement | - | (25,163) | (25,163) | - | (32,233) | (32,233) |
| Imputed financing | - | 14,585 | 14,585 | - | 14,068 | 14,068 |
| Other | - | (575) | (575) | - | (17) | (17) |
| Total Financing Sources | 7,570,445 | 19,746 | 7,590,191 | 7,982,384 | 122,202 | 8,104,586 |
| Net Cost of Operations | 7,488,870 | (151,160) | 7,337,710 | 7,147,210 | 182,993 | 7,330,203 |
| Net Change | 81,575 | 170,906 | 252,481 | 835,174 | (60,791) | 774,383 |
| **Cumulative Results of Operations** | 5,193,576 | 252,783 | 5,446,359 | 5,112,001 | 81,877 | 5,193,878 |
| **Unexpended Appropriations:** | | | | | | |
| Beginning Balances | - | 17,843 | 17,843 | - | 24,617 | 24,617 |
| Adjustments: | | | | | | |
| Changes in accounting principles | - | - | - | - | (9,886) | (9,886) |
| Beginning Balance, as adjusted | - | 17,843 | 17,843 | - | 14,731 | 14,731 |
| **Budgetary Financing Sources:** | | | | | | |
| Appropriations Received | - | 32,219 | 32,219 | - | 146,168 | 146,168 |
| Other Adjustments | - | - | - | - | (209) | (209) |
| Appropriations Used | - | (32,518) | (32,518) | - | (142,847) | (142,847) |
| Total Budgetary Financing Sources | - | (299) | (299) | - | 3,112 | 3,112 |
| **Total Unexpended Appropriations** | - | 17,544 | 17,544 | - | 17,843 | 17,843 |
| **Net Position** | $ 5,193,576 | $ 270,327 | $ 5,463,903 | $ 5,112,001 | $ 99,720 | $ 5,211,721 |

The accompanying notes are an integral part of these statements.

# FEDERAL COMMUNICATIONS COMMISSION
# COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2007 and 2006

(Dollars in thousands)

| | FY 2007 | | FY 2006 | |
|---|---|---|---|---|
| | Budgetary | Non Budgetary Credit Program Financing Acct | Budgetary | Non Budgetary Credit Program Financing Acct |
| **Budgetary Resources:** | | | | |
| Unobligated balance, brought forward, October 1: | $ 1,981,011 | $ 284,141 | $ 1,006,367 | $ 67,196 |
| Recoveries of prior year unpaid obligations | 1,405,407 | - | 954,957 | - |
| Budget authority: | | | | |
| Appropriations received | 7,793,793 | - | 8,306,644 | - |
| Borrowing authority (Notes 16 & 17) | - | 3,274 | - | 183,059 |
| Spending authority from offsetting collections | | | | |
| Earned: | | | | |
| Collected | 383,376 | 137,328 | 384,148 | 1,320,704 |
| Change in receivables from Federal sources | (37) | - | 31 | - |
| Previously unavailable | 25,300 | - | 12,000 | - |
| Budget authority subtotal | 8,202,432 | 140,602 | 8,702,823 | 1,503,763 |
| Temporarily not available pursuant to Public Law | (31,702) | - | (25,300) | - |
| Permanently not available | (1,813) | (346,356) | (2,686) | (1,007,860) |
| Total Budgetary Resources | $ 11,555,335 | $ 78,387 | $ 10,636,161 | $ 563,099 |
| **Status of Budgetary Resources:** | | | | |
| Obligations incurred: (Note 15) | | | | |
| Direct | $ 9,851,168 | $ 32,860 | $ 8,653,372 | $ 278,958 |
| Reimbursable | 2,003 | - | 1,778 | - |
| Subtotal | 9,853,171 | 32,860 | 8,655,150 | 278,958 |
| Unobligated balance: | | | | |
| Apportioned | 126,021 | 343 | 155,098 | 187 |
| Unobligated balance not available | 1,576,143 | 45,184 | 1,825,913 | 283,954 |
| Total, Status of Budgetary Resources | $ 11,555,335 | $ 78,387 | $ 10,636,161 | $ 563,099 |
| **Change in Obligated Balance:** | | | | |
| Obligated balance, net | | | | |
| Unpaid Obligations, brought forward, October 1 | $ 2,898,642 | $ - | $ 3,265,134 | $ - |
| Uncollected customer payments from | | | | |
| Federal sources, brought forward, October 1 | (46) | - | (15) | - |
| Total unpaid obligated balance, brought forward, net | 2,898,596 | - | 3,265,119 | - |
| Obligations incurred net (+/-) | 9,853,171 | 32,860 | 8,655,150 | 278,958 |
| Gross outlays | (7,881,633) | (32,860) | (8,066,684) | (278,958) |
| Recoveries of prior year unpaid obligations, actual | (1,405,407) | - | (954,957) | - |
| Change in uncollected customer payments from Federal sources | 37 | - | (32) | - |
| Total, unpaid obligated balance, net, end of period | 3,464,764 | - | 2,898,596 | - |
| Obligated balance, net, end of period | | | | |
| Unpaid obligations | 3,464,773 | - | 2,898,642 | - |
| Uncollected customer payments from | | | | |
| Federal sources | (9) | - | (46) | - |
| Total, unpaid obligated balance, net, end of period | 3,464,764 | - | 2,898,596 | - |
| **Net Outlays** | | | | |
| Net Outlays: | | | | |
| Gross outlays | $ 7,881,633 | $ 32,860 | $ 8,066,684 | $ 278,958 |
| Offsetting collections | (383,376) | (137,328) | (384,148) | (1,320,704) |
| Distributed Offsetting receipts | (275,777) | - | (32,233) | - |
| Net Outlays | $ 7,222,480 | $ (104,468) | $ 7,650,303 | $ (1,041,746) |

The accompanying notes are an integral part of these statements.

**FEDERAL COMMUNICATIONS COMMISSION**
**CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY**
For the Years Ended September 30, 2007 and 2006
(Dollars in thousands)

| | FY 2007 | FY 2006 |
|---|---|---|
| **Revenue Activity:** | | |
| Sources of Cash Collections: | | |
| Spectrum Auctions | $ 13,912,025 | $ 104,471 |
| Fines and Penalties | 54,122 | 100,133 |
| Credit Reform | 32,860 | 276,311 |
| TDA Interest | 11,836 | 28,885 |
| Total Cash Collections | 14,010,843 | 509,800 |
| Accrual Adjustments | | |
| Spectrum Auctions | (7,363) | 4,121 |
| Fines and Penalties | (15,776) | 20,119 |
| Total Accrual Adjustments | (23,139) | 24,240 |
| Total Custodial Revenue | 13,987,704 | 534,040 |
| **Disposition of Collections:** | | |
| Transferred to Others: | | |
| Recipient A: U.S. Treasury | (6,936,797) | (490,469) |
| Recipient B: Spectrum Relocation Fund | (6,849,884) | - |
| (Increase)/Decrease in Amounts Yet to be Transferred | (104,187) | 70,314 |
| Retained by the Reporting Entity | (96,836) | (113,885) |
| **Net Custodial Activity** | $ - | $ - |

The accompanying notes are an integral part of these statements.

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# NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

**FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006**
(DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED)

## Note 1 - Summary of Significant Accounting Policies

### Reporting Entity

The Commission is an independent United States Government agency, established by the Communications Act (Act) of 1934, as amended. The Commission is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The Commission's jurisdiction spans the 50 states, the District of Columbia, and the U.S. possessions. Five commissioners direct the Commission; 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 Commission is comprised of three reporting components. The primary component consists of Commission headquarters and field offices. The two additional components are the Universal Service Fund (USF) and the North American Numbering Plan (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 (TRS) 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 U.S.C. § 251(e); 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 Commission in conformity with U.S. Federal generally accepted accounting principles (GAAP) and the form and content for entity financial statements specified by OMB Circular No. A-136 "Financial Reporting Requirements."

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. 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 Commission 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 consists of claims made for payment from the public and other federal 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 or more and all internally developed software with a development cost of $50 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 but collectively worth more than $250, 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 lives of the items. The useful lives used are: forty years for buildings, seven years for non-computer equipment, five years for computers and vehicles, and three years for software. Neither land, including permanent improvements, nor software in development is depreciated. 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)

### Other Assets

Other Assets represents the balance of transfers less expenses made by the USF to the Universal Service Administration Company (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 Commission 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 Commission 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.

The NANP and USF collect contributions from U.S., Canadian, and Caribbean carriers to cover the costs of the programs. Some carriers have the option of paying monthly or annually. The unearned portion of annual contributions is recognized as deferred revenue.

### Debt

This account represents amounts due to the U.S. Treasury’s Bureau of Public Debt (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 Commission.

### 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 Commission does not recognize any liability on the Balance Sheet for pensions, other retirement benefits, and other post-employment benefits. The Commission recognizes and allocates the imputed costs on the Statement of Net Cost 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 Commission employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). Under CSRS, the Commission makes matching contributions equal to seven percent of basic pay. For FERS employees, the Commission contributes the employer's matching share for Social Security, 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, plus a component for incurred but not reported claims. 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 Commission, 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**

<u>Regulatory Fee Collections (Exchange)</u> - The Omnibus Budget Reconciliation Act of 1993 directed the Commission 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 Commission 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 Commission. These fees were established by congressional authority, and, consistent with OMB Circular No. A-25 revised, *User Charges*, the Commission 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 Commission's annual appropriation at the close of each fiscal year. The regulatory fee levels of $290,295 for FY 2007 and $298,771 for FY 2006 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 Commission 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 Commission recognized custodial revenue of $13,904,662 in FY 2007 and $108,592 in FY 2006.

Offsetting Collections (Exchange) – One of the Commission's primary functions is managing the spectrum auction program. Proceeds from the auctions are initially remitted to the Commission and are later transferred to the U.S. Treasury, net of anticipated auction related costs (under 47 U.S.C. § 309, the Commission 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 were capped at $85,000 in FY 2007 and FY 2006.

Application Fees (Exchange) – Congress authorized the Commission (47 U.S.C. § 8) to impose and collect application processing fees and directed the Commission to prescribe charges for certain types of application processing or authorization services it provides to communications entities over which the Commission has jurisdiction. The Commission 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 Commission's use. Application fees collected totaled $22,535 in FY 2007 and $22,233 in FY 2006.

Reimbursable Work Agreements (Exchange) – The Commission recognizes reimbursable work agreement revenue when earned, *i.e.*, goods that have been delivered or services rendered. The Commission executed agreements totaling $1,686 in FY 2007 and $1,426 in FY 2006.

Annual Appropriations (Financing Source) – The Commission 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 2007 is $291,282 with regulatory fee collections of $290,295 resulting in a net appropriation of $987. The annual appropriation for FY 2006 was $289,758 with regulatory fee collections of $288,771 resulting in a net appropriation of $987. The Commission funds expenditures first from appropriations and then from offsetting collections.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Revenues and Other Financing Sources (continued)**

<u>Subsidy Estimates and Reestimates (Financing Source)</u> – The Commission 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 Commission received appropriations of $31,232 in FY 2007 and $145,181 in FY 2006 for these purposes. These appropriations are available until used.

<u>USF (Nonexchange)</u> – 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 $7,570,445 in FY 2007 and $7,982,384 in FY 2006.

<u>Allocation of Exchange Revenues</u>
The FCC directly assigns exchange revenue from reimbursable work agreements to specific programs on the statement of net cost. Exchange revenue from regulatory fees, offsetting collections, and application fees is assigned to programs in direct proportion to the level of direct and indirect costs recognized for each program. Radio Spectrum Auction proceeds are exchange revenue but are recorded on the statement of custodial activity because there is no relationship between the cost of the spectrum and the revenue it generates.

**FY 2006 Receipts and Outlays**

In reporting the FY 2006 receipts and gross outlays of the TRS, the multiplying effect of processing the redemption and repurchase of Federal securities through the TRS money market account was reduced. Since money market funds are classified as non-Federal securities, the receipts are obligated and outlayed at the time of initial non-Federal investment. When receipts (including interest, dividends, realized gains and proceeds not immediately reinvested but reported as new receipts) are subsequently re-invested, an obligation and outlay would be recorded. The Commission has reviewed this practice with the OMB and they are in agreement that recording each transaction would distort the receipts and gross outlays of the program. This treatment was also used in the Appropriations Received and Obligations Incurred lines on the SBR.

## Note 1 - Summary of Significant Accounting Policies (continued)

### Transactions with Related Parties

The Commission has a direct oversight relationship with the administrators and billing and collection agents (B&C agents) of funds that are components under the overall Commission entity. These organizations are the Universal Service Administrative Company (USAC), which is both the administrator and B&C agent for the four USF support mechanisms; the National Exchange Carrier Association (NECA) which is both the administrator and B&C agent for the TRS Fund; Neustar which is the administrator for the NANP fund; and Welch & Company which is the B&C agent for the NANP fund. The Commission approves the administrative costs paid to these entities from the respective funds that they manage. The administrative costs cover expenses such as the salaries and benefits for the employees dedicated to managing the funds; rent and utilities for office space used; accounting and other financial reporting related services; and other management activities. All related party balances as of and for FY 2007 and FY 2006 are listed below:

| | USF | TRS | NANP | Total |
|---|---|---|---|---|
| FY 2007: | | | | |
| Administrative Fees | $ 77,778 | $ 1,046 | $ 5,140 | $ 83,964 |
| Due To | - | 69 | 720 | 789 |
| Due From | 8,674 | - | - | 8,674 |
| Total | $ 86,452 | $ 1,115 | $ 5,860 | $ 93,427 |
| FY 2006: | | | | |
| Administrative Fees | $ 61,701 | $ 848 | $ 5,640 | $ 68,189 |
| Due To | - | 52 | 726 | 778 |
| Due From | 10,013 | - | - | 10,013 |
| Total | $ 71,714 | $ 900 | $ 6,366 | $ 78,980 |

### 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 the Commission's operations since inception.

**Note 2 - Non-entity Assets**

The following summarizes Non-entity Assets as of September 30, 2007 and 2006:

| | FY 2007 | FY 2006 |
|---|---|---|
| Intragovernmental: | | |
| Fund Balance with Treasury (FBWT) | $ 268,434 | $ 187,221 |
| Accounts Receivable, Net | 4,703 | 4,322 |
| Total Intragovernmental | 273,137 | 191,543 |
| | | |
| Cash and Other Monetary Assets | - | 3,050,763 |
| Accounts Receivable, Net | 16,593 | 46,291 |
| Total Non-entity Assets | 289,730 | 3,288,597 |
| Total Entity Assets | 6,294,621 | 6,554,847 |
| Total Assets | $ 6,584,351 | $ 9,843,444 |

Non-entity Fund Balance with Treasury primarily represents deposits made towards spectrum auction winning bids. These deposits accounted for $267,178 in FY 2007 and $175,948 in FY 2006. Non-entity Cash and Other Monetary Assets also consist of deposits made by spectrum auction bidders that are held outside of Treasury. Receivables considered non-entity are for regulatory fees, application fees, fines and forfeitures, spectrum auction receivables, and International Telecommunications Settlement (ITS) charges.

**Note 3 - Fund Balance with Treasury**

The following summarizes Fund Balance with Treasury as of September 30, 2007 and 2006:

FY 2007

| | Appropriated Funds | Revolving Funds | Deposit Funds | Total |
|---|---|---|---|---|
| Unobligated Balance | | | | |
| Available | $ 27,051 | $ 45,527 | $ - | $ 72,578 |
| Unavailable | 36,768 | - | - | 36,768 |
| Obligated Balance not yet Disbursed | 81,743 | - | - | 81,743 |
| Non-Budgetary FBWT | - | - | 268,434 | 268,434 |
| Total | $ 145,562 | $ 45,527 | $ 268,434 | $ 459,523 |

FY 2006

| | Appropriated Funds | Revolving Funds | Deposit Funds | Total |
|---|---|---|---|---|
| Unobligated Balance | | | | |
| Available | $ 27,928 | $ 284,142 | $ - | $ 312,070 |
| Unavailable | 27,684 | - | - | 27,684 |
| Obligated Balance not yet Disbursed | 79,721 | - | - | 79,721 |
| Non-Budgetary FBWT | - | - | 187,221 | 187,221 |
| Total | $ 135,333 | $ 284,142 | $ 187,221 | $ 606,696 |

**Note 3 - Fund Balance with Treasury (continued)**

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, and the credit reform program account.

Revolving Funds – Includes the credit reform financing account used to record cash flows associated with the Commission'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 Commission unless they are properly identified or reclassified as Commission 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, 2007 and 2006:

| | FY 2007 | FY 2006 |
|---|---|---|
| Cash and Cash Equivalents | $ 100,200 | $ 3,152,377 |

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 Commission'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 2007 Cash and Other Monetary Assets included no deposits or related accrued interest being held for spectrum auctions, $95,241 in USF contributions and related accrued interest being held for distribution, and $4,959 in NANP deposits and related accrued interest.

In FY 2006 Cash and Other Monetary Assets included $3,050,763 in deposits and related accrued interest being held for spectrum auctions, $96,203 in USF contributions and related accrued interest being held for distribution, and $5,411 in NANP deposits and related accrued interest.

**Note 5 - Investments**

The following summarizes Investments as of September 30, 2007 and 2006:

| | Purchase Cost | Amortization Method | Amortized (Premium) Discount | Investments, Net | Market Value Disclosures |
|---|---|---|---|---|---|
| FY 2007 | | | | | |
| Intragovernmental Securities: | | | | | |
| Marketable Securities | | | | | |
| Treasury Bills | $ 3,445,376 | EI | $ 28,263 | $ 3,473,639 | $ 3,478,422 |
| Treasury Notes | 1,512,455 | EI | 3,034 | 1,515,489 | 1,517,768 |
| Accrued Interest | 22,889 | NA | | 22,889 | 22,889 |
| Total | $ 4,980,720 | | | $ 5,012,017 | $ 5,019,079 |
| FY 2006 | | | | | |
| Intragovernmental Securities: | | | | | |
| Marketable Securities | | | | | |
| Treasury Bills | $ 3,255,849 | EI | $ 30,081 | $ 3,285,930 | $ 3,287,848 |
| Treasury Notes | 1,415,231 | EI | 7,314 | 1,422,545 | 1,422,752 |
| Accrued Interest | 15,041 | NA | | 15,041 | 15,041 |
| Total | $ 4,686,121 | | | $ 4,723,516 | $ 4,725,641 |

EI - Effective Interest Method
NA - Not Applicable

All Treasury securities, regardless of the maturity date, are reported as investments. The Commission expects to hold all investments to maturity; therefore, no adjustments have been made to present market values. All investments are held by USF and are also recognized as part of earmarked funds in Note 20.

The USF had two Treasury Bills for $225,000 that matured on September 30, 2006, but did not settle until October 2, 2006. These securities were reclassified out of investments and into intragovernmental accounts receivable at September 30, 2006. In addition, two new Treasury Bills for $225,000 were purchased on September 29, 2006, but did not settle until October 2, 2006. These transactions were recorded as intragovernmental investments with corresponding accounts payable at September 30, 2006.

The format for the Investments note has been updated to agree with the revised OMB Circular A-136. For comparability purposes, the FY 2006 format has been adjusted to agree with this update.

**Note 6 - Accounts Receivable, Net**

The following summarizes Accounts Receivable, Net as of September 30, 2007 and 2006:

| | Intragovernmental | Public | Total |
|---|---|---|---|
| FY 2007 | | | |
| Gross Accounts Receivable | $ 4,711 | $ 1,533,201 | $ 1,537,912 |
| Allowance for Doubtful Accounts | ( -) | ( 782,439) | ( 782,439) |
| Net Accounts Receivable | $ 4,711 | $ 750,762 | $ 755,473 |
| Interest on Delinquent AR | $ - | $ 45,856 | $ 45,856 |
| FY 2006 | | | |
| Gross Accounts Receivable | $ 229,322 | $ 1,630,380 | $ 1,859,702 |
| Allowance for Doubtful Accounts | ( -) | ( 696,437) | ( 696,437) |
| Net Accounts Receivable | $ 229,322 | $ 933,943 | $ 1,163,265 |
| Interest on Delinquent AR | $ - | $ 45,856 | $ 45,856 |

Accounts receivable are recorded net of any related allowance for doubtful accounts. The Commission's portion is determined by applying predetermined percentages against the respective date the receivable was established. The current formula for the Commission'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. All Commitment Adjustment (COMAD) audit receivables had a 75% allowance in FY 2006 and a 90% allowance in FY 2007. 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 2007 | | | FY 2006 | | |
|---|---|---|---|---|---|---|
| | Accounts Receivable | Allowance | Net | Accounts Receivable | Allowance | Net |
| USF | $ 932,030 | $ (208,793) | $ 723,237 | $ 1,289,171 | $ (191,279) | $ 1,097,892 |
| COMAD | 110,981 | (99,883) | 11,098 | 58,612 | (43,959) | 14,653 |
| Regulatory Fees | 24,737 | (16,958) | 7,779 | 32,866 | (18,325) | 14,541 |
| Spectrum Auction | 415,147 | (412,211) | 2,936 | 416,624 | (406,325) | 10,299 |
| Forfeitures | 39,804 | (37,156) | 2,648 | 48,692 | (29,873) | 18,819 |
| Other | 15,213 | (7,438) | 7,775 | 13,737 | (6,676) | 7,061 |
| Total | $ 1,537,912 | $ (782,439) | $ 755,473 | $ 1,859,702 | $ (696,437) | $ 1,163,265 |

**Note 7 – Loans Receivable, Net**

Under section 309(j)(3) of the Act, as amended, Congress directed the Commission 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 Commission can use various means to facilitate expanded participation, including alternative payment schedules, tax certificates, bidding preferences, and other procedures.

To address the mandate, the Commission provided installment financing in connection with its spectrum auction events, including the C Block Broadband Personal Communications Services (PCS), F Block PCS, Narrowband PCS, Interactive Video and Data Service (IVDS), Multichannel Distribution Service (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 Commission's first auction was conducted in 1994, and starting in 1995 installment payment mechanisms were used to finance portions of some winning bids. The Commission's installment loan portfolio is tracked under ten cohorts. The last active loan matured in April 2007.

As required under the FCRA of 1990, as amended, the Commission 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 September 2007 for actual performance data through August 31 2007. The reestimate resulted in a net downward adjustment, including interest on the reestimate, of $150,202 reported in the FY 2007 financial statements.

**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 2007 Bal. | $ 377,368 | $ 28,444 | $ 1,849 | $ (190,816) | $ 216,845 |
| FY 2006 Bal. | $ 427,581 | $ 33,400 | $ 1,926 | $ (313,486) | $ 149,421 |

Interest accrued on bankrupt and defaulted loans totaled $28,444 in FY 2007 and $33,230 in FY 2006.

**Total Amount of Direct Loans Disbursed**

No new loans were issued in FY 2007 and 2006.

**Note 7 – Loans Receivable, Net (continued)**

**Subsidy Expense for Direct Loans by Program and Component**

1. Direct Loan Modifications and Reestimates:

| Loan Program | Modifications | Interest Rate Reestimates | Technical Reestimates | Total Reestimates |
|---|---|---|---|---|
| Spectrum Auctions | | | | |
| FY 2007 (Net) | $ - | $ - | $ (29,099) | $ (29,099) |
| FY 2006 (Net) | $ - | $ - | $ 11,328 | $ 11,328 |

**Schedule for Reconciling Subsidy Cost Allowance Balances**

| | FY 2007 | FY 2006 |
|---|---|---|
| Beginning Balance of the Subsidy Cost Allowance | $ 313,486 | $ (749,372) |
| Adjustments: | | |
| Recoveries | 21,942 | 1,083,346 |
| Loans written off | (15,663) | - |
| Subsidy allowance amortization | 21,253 | (42,932) |
| Other | (121,103) | 11,116 |
| Ending balance before reestimates | 219,915 | 302,158 |
| Subsidy reestimates: | | |
| Technical/default reestimate | (29,099) | 11,328 |
| Ending balance of the subsidy cost allowance | $ 190,816 | $ 313,486 |

| **Administrative Expense** | FY 2007 | FY 2006 |
|---|---|---|
| Spectrum Auctions | $ 6,622 | $ 5,212 |

**Note 8 - General Property, Plant and Equipment, Net**

The following summarizes General PP&E as of September 30, 2007 and 2006:

| | FY 2007 | | | FY 2006 | | | |
|---|---|---|---|---|---|---|---|
| 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 | 4,030 | 1,463 | 5,493 | 3,986 | 1,507 | 40 |
| Non-Computer Equipment | 34,698 | 31,367 | 3,331 | 36,852 | 33,288 | 3,564 | 7 |
| Computer Equipment | 34,780 | 24,491 | 10,289 | 34,042 | 22,929 | 11,113 | 5 |
| Vehicle Systems | 5,549 | 4,076 | 1,473 | 5,158 | 3,458 | 1,700 | 5 |
| Leasehold Improvements | 3,108 | 1,191 | 1,917 | 3,108 | 881 | 2,227 | 10 |
| ADP Software | 69,439 | 61,334 | 8,105 | 66,322 | 51,581 | 14,741 | 3 |
| Software in Development | 3,598 | - | 3,598 | 1,861 | - | 1,861 | N/A |
| Total | $ 158,108 | $ 126,489 | $ 31,619 | $154,279 | $116,123 | $ 38,156 | |

Equipment being held by Commission component entities totaled $1,756 in FY 2007 and $1,560 in FY 2006. All asset classes are depreciated on a straight-line basis.

**Note 9 - Liabilities Not Covered by Budgetary Resources**

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2007 and 2006:

| | FY 2007 | FY 2006 |
|---|---|---|
| Intragovernmental: | | |
| Other: | | |
| FECA Liability | $ 399 | $ 403 |
| Other: | | |
| Unfunded Leave | 17,186 | 16,941 |
| Accrued Liabilities for Universal Service | 481,603 | 451,860 |
| Total liabilities not covered by budgetary resources | 499,188 | 469,204 |
| Total liabilities covered by budgetary resources | 621,260 | 4,162,519 |
| Total Liabilities | $ 1,120,448 | $ 4,631,723 |

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 10 - Debt**

| | FY 2006 Beginning Balance | Net Borrowing | FY 2006 Ending Balance | Net Borrowing | FY 2007 Ending Balance |
|---|---|---|---|---|---|
| Debt to the Treasury | $ 1,273,798 | $ (824,801) | $ 448,997 | $ (343,083) | $ 105,914 |

The Commission 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 11 - Other Liabilities**

The following summarizes Other Liabilities as of September 30, 2007 and 2006:

| FY 2007 | Non-Current | Current | Total |
|---|---|---|---|
| Intragovernmental | | | |
| Custodial Liability | $ - | $ 256,223 | $ 256,223 |
| Other: | | | |
| Accrued Payroll | - | 1,441 | 1,441 |
| FECA Liability | - | 399 | 399 |
| Other | - | - | - |
| Total Other | - | 1,840 | 1,840 |
| Total Intragovernmental | $ - | $ 258,063 | $ 258,063 |
| | | | |
| Deferred Revenue | $ 20,282 | $ 71,337 | $ 91,619 |
| Prepaid Contributions | - | 45,417 | 45,417 |
| Deposit/ Unapplied Liability | - | 1,170 | 1,170 |
| Accrued Liabilities for Universal Service | - | 481,603 | 481,603 |
| TDA Interest | - | - | - |
| Other: | | | |
| Accrued Payroll | - | 7,305 | 7,305 |
| Unfunded Leave | - | 17,186 | 17,186 |
| Other | - | 17,666 | 17,666 |
| Total Other | - | 42,157 | 42,157 |
| Total Other Public | $ 20,282 | $ 641,684 | $ 661,966 |

**Note 11 - Other Liabilities (continued)**

| FY 2006 | Non-Current | Current | Total |
|---|---|---|---|
| Intragovernmental | | | |
| Custodial Liability | $ - | $ 152,036 | $ 152,036 |
| Other: | | | |
| Accrued Payroll | - | 1,378 | 1,378 |
| FECA Liability | - | 403 | 403 |
| Other | - | 29 | 29 |
| Total Other | - | 1,810 | 1,810 |
| Total Intragovernmental | $ - | $ 153,846 | $ 153,846 |
| | | | |
| Deferred Revenue | $ 17,874 | $ 3,082,270 | $ 3,100,144 |
| Prepaid Contributions | - | 63,461 | 63,461 |
| Deposit/ Unapplied Liability | - | 41,737 | 41,737 |
| Accrued Liabilities for Universal Service | - | 451,860 | 451,860 |
| TDA Interest | - | 28,623 | 28,623 |
| Other: | | | |
| Accrued Payroll | - | 7,332 | 7,332 |
| Unfunded Leave | - | 16,941 | 16,941 |
| Other | - | 17,857 | 17,857 |
| Total Other | - | 42,130 | 42,130 |
| Total Other Public | $ 17,874 | $ 3,710,081 | $ 3,727,955 |

The Custodial Liability includes both cash collected and receivables being held for transfer to the Treasury's General Fund. The Commission 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 Commission.

Prepaid Contributions include USF and NANP contribution overpayments that may be refunded or used to offset future payments. Deposit/Unapplied Liability represents upfront deposits made by auction bidders as well as funds received that are being held until proper application is determined. 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. Remaining Other Liabilities primarily represent anticipated payments for services received, but not billed.

**Note 12 - Leases**

**Operating Leases**

The Commission 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 Commission is not liable for any lease terms beyond one year. The Commission anticipates that space levels consistent with FY 2007 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 |
|---|---|---|---|
| 2008 | $ 43,356 | $ 1,489 | $ 44,845 |
| 2009 | 44,229 | 1,489 | 45,718 |
| 2010 | 45,114 | 1,489 | 46,603 |
| 2011 | 46,017 | 1,489 | 47,506 |
| 2012 | 47,066 | 1,489 | 48,555 |
| Total Future Lease Payment | $ 225,782 | $ 7,445 | $ 233,227 |

**Note 13 - Commitments and Contingencies**

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

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

## Note 14 – Intragovernmental Costs and Exchange Revenue

Intragovernmental costs primarily represent interest expense paid by the Commission on outstanding credit reform borrowing. Additional amounts are also recognized for goods and services purchased by the Commission from other Federal agencies.

Program Costs - FY 2007

| Program | Intragovernmental | Public | Total |
|---|---|---|---|
| Broadband | $ 6,266 | $ 15,876 | $ 22,142 |
| Competition | 29,182 | 7,568,566 | 7,597,748 |
| Spectrum | 63,377 | (35,198) | 28,179 |
| Media | 10,360 | 27,445 | 37,805 |
| Homeland Security | 9,639 | 24,025 | 33,664 |
| Modernize the FCC | 12,698 | 37,743 | 50,441 |
| Total | $ 131,522 | $ 7,638,457 | $ 7,769,979 |

Program Earned Revenue - FY 2007

| Program | Intragovernmental | Public | Total |
|---|---|---|---|
| Broadband | $ - | $ 23,989 | $ 23,989 |
| Competition | - | 113,911 | 113,911 |
| Spectrum | 25,796 | 141,997 | 167,793 |
| Media | 198 | 39,607 | 39,805 |
| Homeland Security | 1,161 | 33,285 | 34,446 |
| Modernize the FCC | - | 50,939 | 50,939 |
| Total | $ 27,155 | $ 403,728 | $ 430,883 |

Program Costs - FY 2006

| Program | Intragovernmental | Public | Total |
|---|---|---|---|
| Broadband | $ 7,179 | $ 19,616 | $ 26,795 |
| Competition | 28,049 | 7,230,955 | 7,259,004 |
| Spectrum | 128,091 | 318,257 | 446,348 |
| Media | 7,966 | 22,921 | 30,887 |
| Homeland Security | 10,197 | 27,654 | 37,851 |
| Modernize the FCC | 11,973 | 38,255 | 50,228 |
| Total | $ 193,455 | $ 7,657,658 | $ 7,851,113 |

Program Earned Revenue - FY 2006

| Program | Intragovernmental | Public | Total |
|---|---|---|---|
| Broadband | $ - | $ 30,374 | $ 30,374 |
| Competition | - | 117,840 | 117,840 |
| Spectrum | 53,499 | 194,798 | 248,297 |
| Media | - | 33,584 | 33,584 |
| Homeland Security | 1,037 | 40,159 | 41,196 |
| Modernize the FCC | - | 54,573 | 54,573 |
| Total | $ 54,536 | $ 471,328 | $ 525,864 |

**Note 15 - Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations**

The following summarizes Apportionment Categories of Obligations Incurred as of September 30, 2007 and 2006:

| | FY 2007 | | FY 2006 | |
|---|---|---|---|---|
| | Budgetary | Non-Budgetary | Budgetary | Non-Budgetary |
| Direct | | | | |
| Category A | $ 377,668 | $ - | $ 372,116 | $ - |
| Category B | 549,655 | 32,860 | 934,513 | 278,958 |
| Exempt from Apportionment | 8,923,845 | - | 7,346,743 | - |
| Total Direct | $ 9,851,168 | $ 32,860 | $ 8,653,372 | $ 278,958 |
| | | | | |
| Reimbursable | | | | |
| Category A | $ 2,003 | $ - | $ 1,778 | $ - |
| Category B | - | - | - | - |
| Total Reimbursable | $ 2,003 | $ - | $ 1,778 | $ - |

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

The Commission has reclassified the FY 2006 TRS portion of Obligations Incurred from Exempt from Apportionment to Direct Category B to be consistent with FY 2007 reporting.

**Note 16 - Available Borrowing/Contract Authority, End of Period**

The Commission 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 Commission 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 Commission 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, recoveries from the re-auction of returned spectrum, and subsidy. The Commission has no borrowing authority available at September 30, 2007 and 2006.

**Note 17 - Terms of Borrowing Authority Used**

| Maturity Dates : | FY 2007 | FY 2006 |
|---|---|---|
| September 30, 2006 | $ - | $ 1,629 |
| September 30, 2007 | 38 | 181,033 |
| September 30, 2008 | 166 | 327 |
| September 30, 2009 | 3,070 | 28 |
| September 30, 2010 | - | 27 |
| September 30, 2012 | - | 15 |
| Total Borrowing Authority Used | $ 3,274 | $ 183,059 |

**Note 17 - Terms of Borrowing Authority Used (continued)**

In FY 2007 the FCC used borrowing authority of $2,628 to cover downward subsidy and $646 to cover interest expense. The FCC anticipates that this borrowing will be repaid from proceeds generated by the recovery of funds related to bankrupt and defaulted loans.

In FY 2006 the FCC used borrowing authority of $180,532 to cover downward subsidy and $2,527 to cover interest expense. The FCC anticipated that this borrowing would be repaid from proceeds generated by loan installment payments and the recovery of funds related to bankrupt and defaulted loans.

**Note 18 – Legal Arrangements Affecting Use of Unobligated Balances**

The Commission may carry forward regulatory fees received for use in the next fiscal year, subject to notification of the congressional appropriations subcommittees. All other no-year unobligated balances are available at the start of the next fiscal year, following apportionment by the OMB.

**Note 19 - Explanation of Differences Between the Statement of Budgetary Resources (SBR) and the Budget of the U.S. Government**

The schedule below presents differences for FY 2006. The *Budget of the United States Government* with actual numbers for FY 2007 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 2006 | President's Budget 2006 | Difference | |
|---|---|---|---|---|
| Unobligated Balance, Brought Forward, Oct. 1 | $ 1,074 | $ 1,052 | $ 22 | A |
| Recoveries of Prior Year Unpaid Obligations | 955 | 950 | 5 | B |
| Budget Authority: | | | | |
| Appropriations Received | 8,307 | 8,307 | - | |
| Borrowing Authority | 183 | 183 | - | |
| Spending Authority From Offsetting Collections | 1,717 | 687 | 1,030 | C |
| Nonexpenditure Transfers | - | 7 | (7) | D |
| Temporarily Not Available Pursuant to Public Law | (25) | - | (25) | E |
| Permanently Not Available | (1,011) | - | (1,011) | F |
| Total Budgetary Resources | 11,200 | 11,186 | 14 | |

| Status of Budgetary Resources ($ in millions): | | | | |
|---|---|---|---|---|
| Obligations Incurred | $ 8,934 | $ 8,934 | $ - | |
| Unobligated Balances – Available | 156 | 2,248 | (2,092) | G |
| Unobligated Balances – Not Available | 2,110 | 4 | 2,106 | G |
| Total, Status of Budgetary Resources | 11,200 | 11,186 | 14 | |

**Note 19 - Explanation of Differences Between the Statement of Budgetary Resources (SBR) and the Budget of the U.S. Government (continued)**

| | Combined Statement of Budgetary Resources 2006 | President's Budget 2006 | Difference | |
|---|---|---|---|---|
| Change in Obligated Balance ($ in millions): | | | | |
| Obligated balance, net – Beginning of Period | $ 3,266 | $ 3,266 | $ - | |
| Obligations, Incurred net (+/-) | 8,934 | 8,934 | - | |
| Less: Gross Outlays | 8,346 | 8,346 | - | |
| Less: Recoveries of PY unpaid obligations, actual | 955 | 950 | 5 | B |
| Change in Uncollected Customer Payments From | | | | |
| Obligated Balance, net, End of Period (calculated) | 2,899 | 2,904 | (5) | |
| Net Outlays ($ in millions): | | | | |
| Gross Outlays | $ 8,346 | $ 8,346 | - | |
| Less: Offsetting Collections | 1,705 | 1,705 | - | |
| Less: Distributed Offsetting Receipts | 32 | 760 | (728) | H |
| Net Outlays | $ 6,609 | $ 5,881 | $ 728 | |

A – The President's Budget (the Budget) excludes $9 million in expired and $13 million in temporarily restricted balances that are not available for FCC use.

B – The Budget does not include $5 million of recoveries in single year appropriations because the funds are expired and not available for use.

C – The President's Budget excludes $9 million in FY 2006 excess regulatory fees and $12 million in FY 2005 excess regulatory fees from this line. The remaining $1,008 million represents the Commission's Debt repayment to Treasury which is also a reduction to offsetting collections in the Budget but shown separately under Permanently Not Available on the SBR.

D - The Budget only recognizes the new authority portion of the transfer of regulatory fees from expired single year accounts into a no year account where they became available for FCC use. The offsetting transfer nets against the new authority on the FCC's SBR.

E – The $13 million and $12 million discussed in A and C are removed from the SBR on this line.

F – The Budget does not include cancelled and other returned authority of $3 million and reflects the Debt repayment to Treasury of $1,008 million as part of offsetting collections (see explanation C).

G – OMB Circular No. A-136 "Financial Reporting Requirements" requires all unapportioned balances to be reflected as not available on the SBR. The Budget determines availability based on the fund type and legislation and places the unapportioned balances for the USF and the Financing Account, $1,814 million and $283 million respectively, on the available line. The remaining $14 million is accounted for by the combination of explanations A through E above.

H – Footnote 23 explains $726 of the difference. The remaining difference is immaterial.

## Note 20 – Earmarked Funds

U.S. telecommunications companies are obligated to make contributions to the Universal Service Fund and the Telecommunications Relay Service Fund. These contributions are accounted for in the Budget of the U.S. Government as the "Universal Service Fund." The Commission currently recognizes the contributions 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 as of September 30, 2007 and 2006:

| | FY 2007 | FY 2006 |
|---|---|---|
| **Balance Sheet as of September 30** | | |
| ASSETS | | |
| Investments | $ 5,012,017 | $ 4,723,516 |
| Cash and Other Monetary Assets | 95,241 | 96,203 |
| Acounts Receivable, net | 735,032 | 1,120,982 |
| General Property, Plant, and Equipment, net | 1,748 | 1,540 |
| Other Assets | 8,674 | 10,013 |
| Total Assets | $ 5,852,712 | $ 5,952,254 |
| LIABILITIES | | |
| Accounts Payable | $ 91,512 | $ 294,116 |
| Deferred Revenue | 40,652 | 30,920 |
| Prepaid Contributions | 45,369 | 63,357 |
| Accrued Liabilities | 481,603 | 451,860 |
| Total Liabilities | $ 659,136 | $ 840,253 |
| Cumulative Results of Operations | $ 5,193,576 | $ 5,112,001 |
| Total Liabilities and Net Position | $ 5,852,712 | $ 5,952,254 |
| **Statement of Net Cost For the Year Ended September 30** | | |
| Gross Program Costs | $ 7,488,870 | $ 7,147,210 |
| Less Earned Revenues | - | - |
| Net Cost of Operations | $ 7,488,870 | $ 7,147,210 |
| **Statement of Changes in Net Position For the Year Ended September 30** | | |
| Net Position Beginning of Period | $ 5,112,001 | $ 4,276,827 |
| Non-Exchange Revenue | 7,570,445 | 7,982,384 |
| Net Cost of Operations | 7,488,870 | 7,147,210 |
| Change in Net Position | 81,575 | 835,174 |
| Net Position End of Period | $ 5,193,576 | $ 5,112,001 |

## Note 21 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders totaled $3,359,478 as of September 30, 2007 and $2,808,061 as of September 30, 2006.

**Note 22 – Reconciliation of Net Cost of Operations (Proprietary) to Budget (Formerly the Statement of Financing)**

As of September 30, 2007 and 2006
(Dollar in thousands)

| | FY 2007 | FY 2006 |
|---|---|---|
| Budgetary Resources Obligated | | |
| Obligations incurred | $ 9,886,031 | $ 8,934,108 |
| Less: Spending authority from offsetting collections and recoveries | 1,926,074 | 2,659,840 |
| Obligations net of offsetting collections and recoveries | 7,959,957 | 6,274,268 |
| Less: Offsetting receipts | 275,777 | 32,233 |
| Net obligations | 7,684,180 | 6,242,035 |
| Other Resources | 37,498 | 46,318 |
| Change in Undelivered Orders | (551,417) | 374,883 |
| Resources that fund expenses recognized in prior periods | (41,241) | (316,972) |
| Budgetary offsetting collections and receipts that do not affect net cost of operations | 360,339 | 1,222,297 |
| Resources that finance the acquisition of assets | (10,837) | (404,819) |
| Other | (47,283) | (23,192) |
| Increase in annual leave liability | 245 | (111) |
| Upward/Downward reestimates of credit subsidy (+/-) | (150,202) | 22,444 |
| Increase in exchange revenue receivable from the public | 10,517 | (8,370) |
| Other (+/-) | 37,953 | 32,542 |
| Depreciation and Amortization | 16,985 | 21,712 |
| Other (+/-) | (9,027) | 121,436 |
| Net Cost of Operations | $ 7,337,710 | $ 7,330,203 |

**Note 23 – Change in Accounting Principles**

Instructions for determining amounts to be displayed on the Distributed Offsetting Receipts line of the Statement of Budgetary Resources (SBR) refer to the Treasury Consolidated Statement (TCS) as the listing that identifies those receipts that should be included on this line. In FY 2007, the FCC obtained two clarifications regarding the TCS and the amounts that should be reflected on the Distributed Offsetting Receipts line.

The first clarification came from the OMB and U.S. Treasury and made clear that it is acceptable to recognize the federal and non-federal interest earned and the return of capital (principal) from the sale of non-federal investments differently from the contributions they were derived from for the purpose of determining the Net Outlays of the agency. In past years, the FCC has excluded these receipts from the Distributed Offsetting Receipts line of the SBR on the basis that recognizing the interest earned differently from the principal contributions it was derived from was not consistent with accounting treatments prescribed by the U.S. Treasury and the *Statement of Federal Financial Accounting Standards (SFFAS)*. Under U.S. Treasury guidance for Special Fund Receipt accounts, both the interest earned and the principal contribution are recognized together as appropriations for the purpose of establishing spending authority. Under SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*, in recognizing exchange and non-exchange revenue, the determination of interest earned on invested funds is tied to the source of

**Note 23 – Change in Accounting Principles (continued)**

those funds. If the source of funds is non-exchange, as is the case with the USF funds, then the interest earned is similarly recognized as non-exchange and does not offset the gross costs of the entity. However, based on the financial statement presentation preferred by the OMB and the U.S. Treasury in accordance with OMB Circular No. A-136, *Financial Reporting Requirements*, the FCC has changed its financial statement presentation by reporting the USF accounts listed in the applicable sections of the TCS as distributed offsetting receipts in its FY 2007 SBR.

The second clarification came from the FY 2006 TCS. In FY 2006, an account was established by the U.S. Treasury for the return of downward subsidy. In preparing the FY 2006 SBR, the FCC referred to the available TCS at the time which was the FY 2005 report. As there was no account for the downward subsidy in the FY 2005 TCS, the FCC did not include these receipts in the Distributed Offsetting Receipts line. In reviewing the TCS for FY 2006 as part of preparing the FY 2007 SBR, the FCC noted that the downward subsidy account has been included and accordingly, has included the FY 2007 downward subsidy amounts on the Distributed Offsetting Receipts line for FY 2007.

Distributed Offsetting Receipts are reported on the SBR solely for the purpose of arriving at Net Outlays and correlating with the President's Budget. Thus, Distributed Offsetting Receipts has no effect on the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Custodial Activity, and no adjustment to the Commission's accounting records is necessary for this change.

For comparative purposes, the following chart reflects the impact to the FY 2006 Distributed Offsetting Receipts line for the changes described above:

| | | |
|---|---|---|
| Distributed Offsetting Receipts as reported in FY 2006 | $ 32,233 | |
| Add back unreported distributed offsetting receipts: | | |
| USF, Non-Federal Interest Earned | | 599 |
| USF, Return of Capital from Sale of Non-Federal Investments | 396,154 | |
| USF, Interest on Federal Securities | | 148,136 |
| Spectrum Auction Direct Loan Downward Reestimate | 180,532 | |
| FY 2006 Distributed Offsetting Receipts (comparative in FY 2007) | | $ 757,654 |

# REQUIRED SUPPLEMENTARY INFORMATION

## REQUIRED SUPPLEMENTARY INFORMATION - DEFERRED MAINTENANCE

As of September 30, 2007
(Dollars in thousands)

To determine the original estimated cost of deferred maintenance in FY 2000, the Commission 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 Commission updates the report from the previous year for items completed and newly identified projects. The estimated deferred maintenance for FY 2007 is $1,413. The FCC obligated $1,730 in FY 2007 for renovations at its Columbia, Maryland facility. These renovations will accomplish deferred maintenance items at that facility currently estimated at $980.

## REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2007
(Dollars in thousands)

The OMB Circular No. A-136, "Financial Reporting Requirements," requires additional disclosure of an entity's budgetary information by major budgetary account if the information was aggregated for presentation purposes on the Statement of Budgetary Resources. The major budget accounts include the FCC and the Universal Service Fund. Reflected in the chart below are the major accounts of the FCC that are aggregated and presented in the September 30, 2007 Combined Statement of Budgetary Resources.

| FY2007 | S&E | Credit | Auctions | USF | Total |
|---|---|---|---|---|---|
| **Budgetary Resources:** | | | | | |
| Unobligated balances - brought forward, October 1: | $ 20,182 | $ 292,142 | $ 2,129 | $ 1,950,699 | $ 2,265,152 |
| Recoveries of prior year unpaid obligations | 4,498 | 625 | 3,859 | $ 1,396,425 | 1,405,407 |
| Budget authority: | 324,626 | 171,834 | 85,000 | 7,761,574 | 8,343,034 |
| Temporarily not available pursuant to Public Law | (31,702) | - | - | - | (31,702) |
| Permanently not available | (93) | (346,356) | (1,720) | - | (348,169) |
| Total budgetary resources | $ 317,511 | $ 118,245 | $ 89,268 | $ 11,108,698 | $ 11,633,722 |
| **Status of Budgetary Resources:** | | | | | |
| Obligations incurred | $ 298,232 | $ 64,154 | $ 84,995 | $ 9,438,649 | $ 9,886,030 |
| Unobligated balances - available | 15,536 | 8,278 | 3 | 102,547 | 126,364 |
| Unobligated balances - not available | 3,743 | 45,813 | 4,270 | 1,567,502 | 1,621,328 |
| Total, status of budgetary resources | $ 317,511 | $ 118,245 | $ 89,268 | $ 11,108,698 | $ 11,633,722 |
| **Change in Obligated Balance:** | | | | | |
| Total unpaid obligated balance, net brought Forward | $ 39,376 | $ 10,476 | $ 29,868 | $ 2,818,876 | $ 2,898,596 |
| Obligations incurrred, net | 298,232 | 64,154 | 84,996 | 9,438,649 | 9,886,031 |
| Gross outlays | (289,835) | (64,400) | (82,177) | (7,478,081) | (7,914,493) |
| Recoveries of prior year unpaid obligations, actual | (4,498) | (625) | (3,859) | (1,396,425) | (1,405,407) |
| Change in uncollected customer payments from Federal sources | 37 | - | - | - | 37 |
| Total, Unpaid obligated balance, net, end of period | $ 43,312 | $ 9,605 | $ 28,828 | $ 3,383,019 | $ 3,464,764 |
| **Net Outlays** | | | | | |
| Gross outlays | $ 289,835 | $ 64,400 | $ 82,177 | $ 7,478,081 | $ 7,914,493 |
| Offsetting collections | (298,376) | (137,328) | (85,000) | - | (520,704) |
| Distributed offsetting receipts | (27,369) | - | - | (248,408) | (275,777) |
| Net outlays | $ (35,910) | $ (72,928) | $ (2,823) | $ 7,229,673 | $ 7,118,012 |

**Clifton Gunderson LLP**
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## Independent Auditor's Report

To the Inspector General of the
Federal Communications Commission

We have audited the consolidated balance sheets including the accompanying notes of the Federal Communications Commission (FCC) as of September 30, 2007 and 2006, and the related consolidated statements of net cost, changes in net position, custodial activity, and combined statements of budgetary resources, for the years then ended (hereinafter collectively referred to as the "consolidated financial statements"). These consolidated financial statements are the responsibility of the FCC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable provisions of the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements' presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements including the accompanying notes referred to above present fairly, in all material respects, the financial position of the FCC as of September 30, 2007 and 2006, and the related statements of net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 13, 2007 on our consideration of the FCC's internal control over financial reporting, and on our tests of the FCC's compliance with certain provisions of laws and regulations and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The information in the Management Discussion and Analysis and Required Supplementary Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Message from The Chairman, Program Performance Section, and Other Accompanying Information is presented for purposes of additional analysis and is not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Clifton Gunderson LLP

Calverton, Maryland
November 13, 2007

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 have audited the financial statements of the Federal Communications Commission (FCC) as of, and for the year ended September 30, 2007, and have issued our report thereon dated November 13, 2007. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and, Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements.*

The management of the FCC is responsible for complying with laws and regulations applicable to the FCC. As part of obtaining reasonable assurance about whether the FCC's financial statements are free of material misstatements, we performed tests of the FCC's compliance with certain provisions of laws and regulations, non-compliance 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 07-04. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the FCC. 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 disclosed instances of reportable noncompliance or other matters that are required to be reported under U.S. generally accepted government auditing standards or OMB guidance and are described in the following paragraphs. None of the noncompliance identified below are material noncompliance.

**The Federal Managers' Financial Integrity Act (FMFIA) (Repeat Condition)**

The FMFIA requires agencies to establish management controls over their programs and financial systems as stated in the following sections of the Act:

- Section 2 seeks to assess internal controls necessary to ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditures are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports.

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- Section 4 seeks to assess nonconformance with governmentwide financial systems requirements.

OMB Circular A-127 offers guidance in implementing FMFIA. OMB Circular A-127 requires that "Financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems". Furthermore, in doing so, "Financial systems design shall eliminate unnecessary duplication of transaction entry. Whenever appropriate, data needed by the systems to support financial functions shall be entered only once and other parts of the system shall be updated through electronic means consistent with the timing requirements of normal business/transaction cycles."

Moreover, OMB Circular A-127 requires that agency financial management systems be reviewed for compliance with specified minimum requirements. These include: Agency-wide Financial Information Classification Structure; Integrated Financial Management Systems; Application of the U.S. Government Standard General Ledger at the Transaction Level; Federal Accounting Standards; Financial Reporting; Budget Reporting; Functional Requirements; Computer Security Act Requirements; Documentation; and Internal Controls.

In fiscal year 2007, as in prior years, the FCC has not fully complied with certain requirements of the FMFIA. See details in our Independent Auditor's Report on Internal Control (IC Report), Section I. The key items we identified include:

- The 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.

- The FCC has not completed reviews of FCC financial management systems to determine whether they meet the functional requirements established by OMB Office of Federal Financial Management. A schedule for conducting OMB A-127 reviews of the financial management system will be prepared and initiated in fiscal year 2008.

**Debt Collection Improvement Act (DCIA) of 1996 (Repeat Condition)**

In accordance with DCIA, the FCC is required to refer eligible receivables that are delinquent to Treasury for collection or offset. Eligible receivables include those that are not the subject of litigation, related to foreclosure proceedings, or from organizations in bankruptcy. The FCC's Treasury Report on Receivables for administrative receivables submitted to the Department of the Treasury as of June 30, 2007 showed that only $58 million out of $123 million required to be referred to the Treasury Offset Program were referred through cross-servicing. Also, only $68 million out of $111 million required to be referred to Treasury or Designated Debt Collection Center for cross-servicing were referred for cross-servicing. See IC Report, Section II.

*******************************

The FCC's management response to the reportable noncompliance identified in our report is included as Appendix B to this report. We did not audit the FCC's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of FCC, FCC Office of Inspector General, GAO, 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 13, 2007

**Clifton Gunderson LLP**
Certified Public Accountants & Consultants

## Independent Auditor's Report on Internal Control

To the Inspector General of the
Federal Communications Commission

We have audited the financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2007 and have issued our report thereon dated November 13, 2007. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and, applicable provisions of the Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements.*

In planning and performing our audit, we considered FCC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and to comply with OMB Bulletin No. 07-04, but not for the purpose of expressing an opinion on the effectiveness of FCC's internal control over financial reporting. 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. Accordingly, we do not express an opinion on the effectiveness of FCC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis., A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the second paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weakness. However, we believe that none of the significant deficiencies described below are a material weakness.

Finally, with respect to internal control related to performance measures reported in the FCC's Performance and Accountability Report as of September 30, 2007, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 07-04. 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.

*******************************

**SIGNIFICANT DEFICIENCIES**

FCC management continued to make progress in strengthening controls over financial reporting and information technology, as well as addressing prior year findings and recommendations. Of particular note, FCC corrected weaknesses identified in the payroll area in prior years. Also, in fiscal year 2007, FCC management implemented key initiatives which included the establishment of an anti-fraud directive; and signing a memorandum of understanding (MOU) with the administrator of the Universal Service Fund (USF) and the Board of Directors of the Universal Service Administration Company (USAC), a reporting component.

However, a majority of weaknesses identified in prior years still exist as described below.

**I. Financial Reporting**

**A. FCC Entity**

FCC utilizes Federal Financial System (FFS) as its general ledger and core financial management system. Certain financial activities are accounted for outside of FFS. These include Revenue and Accounts Receivable transactions, Capital Property, Plant and Equipment transactions, Loan transactions, International Telecommunications Settlement (ITS) receivable transactions and spectrum auction liability and receivable transactions. Of these transactions only the Revenue and Accounts Receivables processed through the Revenue Accounting and Management Information System (RAMIS) and Loans processed through the Tracking and Reporting Database (TRD) activity are integrated with the core financial system via interface. All other transactions are not integrated or interfaced.

By design, auction related receivables are generated in RAMIS to track the outstanding balance on winning bids. However, the creation of winning bid receivables does not create an accounting transaction that is interfaced into FFS. FCC therefore, continues to use excel spreadsheets as the subsidiary ledger and system of record for the spectrum auction activities. These spreadsheets/databases support the flow of transactions throughout the year. Because auctioning spectrum 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

Because the FCC lacks an interfaced/integrated system, at financial statement preparation time, FCC goes through a process of compiling financial data in separate spreadsheets in a complex and time-consuming process to generate the consolidated financial statements.

Although FCC reviews these spreadsheets, the risks of errors increase due to the inherent risks and limitations of a spreadsheet based application in a complex accounting operation. Some of these risks include:

- Substantial manual intervention, thereby increasing the risk of human error not being detected.
- Difficulty in tracking changes made to spreadsheets, including formula changes (inadequate audit trail).
- Difficulty in verifying change controls and error correction changes made.
- Unique transactions are difficult to incorporate.
- Difficulty in performing automatic checks and balances on the transactions in the spreadsheets.

OMB Circular No. A-127*, Financial Management Systems,* requires that each agency establish and maintain a single integrated financial management system. Without a single financial management system to ensure timely and accurate financial data, poor policy decisions may occur due to inaccurate or untimely information. Moreover, financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. In so doing, financial system designs shall eliminate unnecessary duplication of transaction entry. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once and other parts of the system shall be updated through electronic means consistent with the timing requirements of normal business/transaction cycles.

***Recommendations:***

1. Evaluate the need to link or interface the auction spreadsheets/database with the FFS and/or the correction of the RAMIS auction module programming with the objective of having an integrated system that will generate correct data without manual intervention. (Updated)
2. Ensure that ITS and PPE transactions are integrated/interfaced with FFS. (Updated)

3. Consider using an automated compilation system that will allow component entity trial balances to be interfaced/loaded electronically and that will establish a greater level of control over the conversion of trial balances into financial statement and footnote balances. (Updated)

**B. Component Entities**

OMB Circular A-136, *Financial Reporting Requirements,* states that "when the reporting entities of which these components are a part, issue consolidated or consolidating statements, that include such components, generally accepted accounting principles (GAAP) for Federal Entities shall be applied to these components." Also, FCC Order 03-232 required the administrators of the Universal Service Fund (USF) and the Telecommunication Relay Services (TRS) to prepare financial statements consistent with GAAP for Federal entities and to account for the funds in accordance with United States Standard General Ledger (USSGL).

**1. Financial Management System**

As in past years, USF and TRS transactions were maintained in non-integrated subsidiary ledgers without sufficient details. To illustrate:

- The COMAD transactions were tracked in a separate subsidiary ledger due to the inability of the USF general ledger system to handle multiple subsidiary ledgers. On a monthly basis, the outstanding COMAD balances were input into the system via a top-sided entry (a summary general ledger entry entered manually into the general ledger system).
- The USF accounts payable subsidiary ledger is not maintained with sufficient details. The AP subsidiary ledger is a list of outstanding payments summarized by vendor and not by individual invoice details. The invoice details are available through the support mechanisms but those details are not included in the subsidiary ledgers that are included in the monthly closing files.
- USF and TRS budgetary transactions are not recorded at the transaction level or on a timely basis. Transactions are captured on subsidiary ledger spreadsheets; but not at the appropriate standard budgetary general ledger accounts. An adjustment is made to the appropriate general ledger accounts on a monthly basis.

As explained in Finding I.A, the use of various spreadsheets increases the risks of errors due to the inherent limitations and risks associated with the spreadsheet based system. In addition, the lack of an integrated financial management system and the untimely recording of budgetary transactions to the appropriate general ledger accounts could potentially limit the ability of the program managers to make decisions.

2. **USF Accounts Receivable Reconciliation**

The FCC and the USF administrator do not perform a reconciliation of the accounts receivable (AR) balances transferred from USF to FCC for purposes of referring accounts to Treasury in accordance with the Debt Collections Improvement Act (DCIA). During the financial statement consolidation process, FCC eliminates the USF AR from its financial records and reports the balance provided by the USF administrator without reconciling the balances. The AR balance transferred to the FCC as of June 30, 2007 per the FCC AR subsidiary ledger was $94,966,750 while the corresponding amount per the USF AR subsidiary ledger was $98,023,657. As reported in prior year, the lack of prompt and periodic reconciliation may result in misstatement of the account receivable balance on the financial statements.

GAO's Standards for Internal Control in the Federal Government states, "internal control 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, comparisons, reconciliations, and other actions people take in performing their duties."

***Recommendations:***

4. Either interface various spreadsheets to the core financial system or re-assess the functional requirements of the existing financial system (such as the need for sufficient details for the accounts receivable and accounts payable subsidiary ledgers) to achieve an integrated financial management system. (Updated)
5. Record USF and TRS budgetary entries at the transaction level and to the appropriate standard general ledger budgetary accounts timely. (Updated)
6. Perform periodic reconciliation (preferably monthly but at least quarterly) of the accounts receivable transferred from USF to FCC and ensure that reconciling items are promptly followed up and resolved. Clearly define responsibilities for monitoring and reviewing the reconciliation process. (Updated)

**II. Debt Collection Improvement Act (Modified Repeat Condition)**

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

The FCC's Treasury Report on Receivables for administrative receivables submitted to the Department of the Treasury as of June 30, 2007 showed that only $58 million out of $123 million required to be referred to Treasury Offset Program was referred through cross-servicing. Moreover, only $68 million out of $111 million required to be referred to Treasury or Designated Debt Collection Center for cross-servicing was referred for cross-servicing.

***Recommendation:***

7. Refer all eligible delinquent debt more than 180 days old to the Treasury for offset or for cross servicing timely (Repeat).

## III. Compliance with OMB Circular No. A-130, *Requirement for a Comprehensive Security Plan*

Effective information security management is critical to the FCC's ability to ensure the reliability, availability, and confidentiality of its information assets, and thus its ability to perform its mission. If effective information security practices are not in place, the FCC's data and systems are at risk of inadvertent or deliberate misuse, fraud, improper disclosure, or destruction—possibly without detection.

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.

Although the FCC has made progress in implementing important elements of its information security program, including establishing its *Computer Security Program* – the FCC Directive 1479.2*,* a computer security program group and appointing a senior information security officer to manage the program, it has not fully implemented other essential elements. The FCC has not consistently implemented important information security practices and controls, including fully implementing its certification and accreditation program, ensuring that sensitive data transmissions are encrypted, and ensuring a MOU and/or ISA are in place. These deficiencies in security controls decrease the FCC's ability to protect its sensitive or critical resources. The deficiencies identified below, taken as a group, results in a significant deficiency.

- The FCC has not established policies and procedures to ensure that all sensitive data to and from its contractors are protected, remain private and that critical business transactions remain trusted and secure.
  The FCC does not have signed Memorandum of Understanding (MOU) and/or Interconnection Security Agreement (ISA) for some of the major external entities that the FCC shares data with, or whose systems are interconnected with the FCC systems. The ISA documents and formalizes the interconnection of two systems owned by two different organizations. It is a distinct security-related document that outlines technical solution and security requirements for the interconnection. It does not replace a MOU but supports a MOU. The MOU is used to document the business requirement and all the legal aspects necessary to support the business relations between the two organizations. The MOU should not include technical details on how the interconnection is consummated.
- Periodic Computer Incident Response Team Meetings are not conducted in accordance with the *FCC Computer Incident Response Team Desk Reference Guide.*

- The FCC has not consistently implemented its certification and accreditation process for all of its major applications and general support systems.
    a. One of the FCC's major financial system applications has had significant changes to its operating environment. The financial application was put into production before the certification and accreditation was completed as required by FCC Directive 1479.2.
    b. The FCC did not certify and accredit a major application before authorizing it to operate.
    c. The FCC has not recertified and accredited six major applications and one general support system.
- Logical access is not always promptly revoked after the separation of employees and contractors.
- The FCC does not have documented policies and procedures that reflect the current operating process for granting internal and remote access to its networks.
- The FCC did not consistently implement configuration management controls. Deficiencies were noted in an operating system that supports some of the FCC's major applications.
- Control documents which may contain sensitive information were misplaced.

The FCC has not completed its OMB A-127 reviews in fiscal year 2007. The reviews are scheduled to be completed in fiscal year 2008.

***Recommendations:***

8. Ensure that transmission of all sensitive data to and from the FCC's contractors and business partners is protected and encrypted. (Repeat)
9. Ensure that MOUs and/or ISAs are signed with all major external entities that the FCC shares data with, or whose systems are interconnected with the FCC systems. (Repeat)
10. Ensure that FCC Computer Incident Response Team conducts meetings in accordance with the *FCC Computer Incident Response Team Desk Reference Guide.*(New)
11. Consistently implement the certification and accreditation process for all of the FCC's major applications and general support systems. (Updated)
    a. Recertify and accredit major applications that have had significant changes to their operating environment in accordance with NIST Special Publication 800-37 and FCC Directive 1479.2. (Repeat)
    b. Ensure that all new major applications are certified and accredited before being placed into production. (Repeat)
    c. Ensure that the six major applications and one general support system are recertified and accredited. (New)
12. Implement procedures to ensure the prompt revocation of access to the FCC resources at the effective date of termination of employees and contractors. (Repeat)
13. Document the policies and procedures for granting access to FCC's networks and systems. (Updated)
14. Develop and implement procedures and processes for the consistent implementation of common configuration management controls to minimize security weaknesses in general support systems. (Updated)

15. Improve and enhance control procedures for the handling and maintenance of sensitive information at the FCC. (New)
16. Complete the OMB A-127 reviews in fiscal year 2008. (New)

**STATUS OF PRIOR YEAR COMMENTS**

We have reviewed the status of FCC's corrective actions with respect to the reportable findings and recommendations from past years' reports on internal controls. Many of these reportable findings and recommendations have been outstanding for several years. Details of the status of the recommendations are reported as Appendix A to this report.

*******************************

The FCC management's response to the significant deficiencies identified in our report is included as Appendix B to this report. We did not audit the FCC's response and, accordingly, we express no opinion on it.

In addition to the significant deficiencies 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 13, 2007.

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 13, 2007

**APPENDIX A**
**FEDERAL COMMUNICATIONS COMMISSION**
**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**
**September 30, 2007**

| Recommendation No. | Condition Audit Area | Recommendation | Current Status[1] |
|---|---|---|---|
| **Reportable Conditions** | | | |
| **I. Financial Reporting** | | | |
| 1 | A. Integrated Financial Management System | Ensure the integration of the overall financial management systems. | Updated – reported in current year recommendations #1, #2 and #3 |
| 2 | A. Integrated Financial Management System | Assess the need to modify the existing contract to authorize the loan service provider to implement the necessary functional requirements to meet OFFM requirements for a direct loan system. | Closed |
| 3 | A. Integrated Financial Management System | Ensure that the USF general ledger system is in full compliance with the Financial Management System requirements and the USSGL. | Updated – reported in current year recommendations # 4 and #5 |
| 4 | B. Federal Financial System Setup and Posting Model | Perform a periodic or quarterly update of and correct the FFS system setup and posting model definitions to ensure that transactions are posted to the general ledger properly to eliminate or minimize the risk of errors and the time consuming efforts of identifying and preparing monthly adjustments. | Closed |
| 5 | C. Financial Statement and Federal Agencies' Centralized Trial-Balance System II Differences | Implement effective quality control procedures to ensure that external reports are reviewed prior to submission. | Closed |
| 6 | D. Auction Transactions | Issue written policies and procedures within the WTB outlining responsible offices, authority, responsibilities, | Closed |

[1] Updated conditions can be closed because a revised/new recommendation is now in place.

**APPENDIX A**
**FEDERAL COMMUNICATIONS COMMISSION**
**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**
**September 30, 2007**

| Recommendation No. | Condition Audit Area | Recommendation | Current Status[1] |
|---|---|---|---|
| | | timelines, and others to ensure that all auction and licensing activities with financial impact are reported to Financial Operation Center for timely and proper recording. | |
| 7 | D. Auction Transactions | Establish a database for the 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. The comprehensive schedule should be periodically reviewed and reconciled. | Updated – reported in current year recommendation # 2 |
| 8 | E. Spreadsheet Subsidiary Ledger System | Evaluate existing spreadsheet applications and determine ways to reduce the number of spreadsheets involved in the financial reporting process. | Updated – reported in current year recommendations #1 and #2 |
| **II. Component Entities' Financial Reporting Controls** | | | |
| 9 | A. Policies and Procedures | Finalize all financial policies and procedures still in draft starting with those listed above. | Closed |
| 10 | B. Recording and Reconciling Activity | Ensure implementation of the USSGL posting model and recording at the transaction level. | Updated – reported in current year recommendation #5 |
| **III. Tighten FCC Oversight of the Components Entities' Activities** | | | |
| 11 | A. Title to Monetary Assets and Investments | Direct the USF and NANP administrators to require the banks to clearly identify the accounts as assets owned by USF or NANP, and that the administrators be limited to a fiduciary role. | Closed |

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**APPENDIX A**
**FEDERAL COMMUNICATIONS COMMISSION**
**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**
**September 30, 2007**

| Recommendation No. | Condition Audit Area | Recommendation | Current Status[1] |
|---|---|---|---|
| 12 | B. Controls Over Compliance with Laws and Regulations | The FCC's management should provide timely guidance to the USF administrators when consulted on matters to enhance fund management controls and compliance capability. | Closed |
| 13 | C. Collateral for TRS Cash | Direct the TRS fund administrator to finalize a binding collateral agreement that is sufficient indemnification for all funds deposited, ensuring that it is effective immediately. | Updated – reported in current year management letter |
| 14 | D. Accounts Receivable Reconciliation | Perform periodic reconciliation (preferably monthly but at least quarterly) of the accounts receivable transferred from the USF to the FCC. | Updated – reported in current year recommendation #6 |
| 15 | A. Minimum Level of Cost Accounting | Enhance Budget Execution and Management Systems (BEAMS) functionality to satisfy the minimum level of cost accounting required in a managerial cost accounting system by SFFAS No. 4. | Closed |
| 16 | A. Minimum Level of Cost Accounting | Define outputs produced by the responsibility segments and incorporate the definition into the Statement of Net Costs allocation methodology. | Updated – reported in current year management letter |
| 17 | B. Matching Revenue to Cost | 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. | Updated – reported in current year management letter |

**APPENDIX A**
**FEDERAL COMMUNICATIONS COMMISSION**
**STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS**
**September 30, 2007**

| Recommendation No. | Condition Audit Area | Recommendation | Current Status[1] |
|---|---|---|---|
| **V. Payroll and Personnel Activities** | | | |
| 18 | A. Payroll Activities | Increase the NFC and the FCC system reconciliation procedures to include all leave categories. | Closed |
| 19 | A. Payroll Activities | Ensure that timekeepers perform monthly reconciliation of time and attendance report errors generated from the FCC's desktop payroll reconciliation system. | Closed |
| 20 | A. Payroll Activities | Enhance the LES system capabilities to reject incorrect project codes from being entered in the system in the first place. | Updated – reported in current year management letter |
| 21 | A. Payroll Activities | Issue guidance to establish timeframes for employees to correct invalid project code errors. | Closed |
| 22 | A. Payroll Activities | Provide the FCC contact person at NFC a listing of uncorrected project codes monthly. | Closed |
| **VI. Debt Collection Improvement Act** | | | |
| 23 | VI. Debt Collection Improvement Act | Refer all eligible delinquent debt more than 180 days old to the Treasury for offset or timely cross servicing. | Open – reported in current year recommendation #7 |
| 24 | VI. Debt Collection Improvement Act | 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. | Closed |

## APPENDIX A
## FEDERAL COMMUNICATIONS COMMISSION
## STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
**September 30, 2007**

| Recommendation No. | Condition Audit Area | Recommendation | Current Status[1] |
|---|---|---|---|
| 25 | VII. OMB Circular No. A-130, Requirement for a Comprehensive Security Plan | Issue a new directive to replace the expired security directive 1131.1. | Closed |
| 26 | VII. OMB Circular No. A-130, Requirement for a Comprehensive Security Plan | Ensure that transmission of all sensitive data to and from the FCC's contractors and business partners is protected and encrypted. | Open – reported in current year recommendation #8 |
| 27 | VII. OMB Circular No. A-130, Requirement for a Comprehensive Security Plan | Ensure that the "principle of least privilege" is adequately enforced across all major applications and general support systems. | Closed |
| 28 | VII. OMB Circular No. A-130, Requirement for a Comprehensive Security Plan | 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. | Closed |
| 29 | VII. OMB Circular No. A-130, Requirement for a Comprehensive Security Plan | Ensure that the recertification process for all systems (including contractors) is thorough and complete. | Closed |
| 30 | VII. OMB Circular No. A-130, Requirement for a Comprehensive Security Plan | Recertify and accredit major applications that have had significant changes to their operating environment before being placed into production in accordance with NIST Special Publication 800-37 and FCC Directive 1479.2. | Open – reported in current year recommendation #11a |

## APPENDIX A
## FEDERAL COMMUNICATIONS COMMISSION
## STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
**September 30, 2007**

| Recommendation No. | Condition Audit Area | Recommendation | Current Status[1] |
|---|---|---|---|
| 31 | VII. OMB Circular No. A-130, Requirement for a Comprehensive Security Plan | Implement procedures to ensure the prompt revocation of access to the FCC resources at the effective date of termination of employees and contractors. | Open – reported in current year recommendation #12 |
| 32 | VII. OMB Circular No. A-130, Requirement for a Comprehensive Security Plan | Ensure that Memorandum of Understanding and/or Interconnection Security Agreements (ISA) are signed with all major external entities that the FCC shares data with, or whose systems are interconnected with the FCC systems. | Open – reported in current year recommendation #9 |
| 33 | VII. OMB Circular No. A-130, Requirement for a Comprehensive Security Plan | Ensure that all new major applications are certified and accredited before being placed into production. | Open – reported in current year recommendation #11b |
| 34 | VII. OMB Circular No. A-130, Requirement for a Comprehensive Security Plan | Ensure that security weaknesses noted in a major operating system is addressed and that a comprehensive security review is conducted. | Closed |
| 35 | VII. OMB Circular No. A-130, Requirement for a Comprehensive Security Plan | Maintain access authorization forms for all major applications to ensure that appropriate level of access is granted based on job function. | Open – reported in current year recommendation #13 |

APPENDIX B

Federal Communications Commission's Response to Independent Auditor's Reports on Internal Controls and Compliance with Laws and Regulations for Fiscal Year 2007

***Office of the Managing Director***

**M E M O R A N D U M**

**DATE:** November 14, 2007

**TO:** Kent R. Nilsson, Inspector General

**FROM:** Anthony J. Dale, Managing Director and Mark Stephens, Chief Financial Officer

**SUBJECT:** Management's Response to Independent Auditor's Reports on Internal Controls and Compliance with Laws and Regulations for Fiscal Year 2007

Thank you for the opportunity to review and comment on the draft reports entitled *Independent Auditor's Report on Internal Control* and *Independent Auditor's Report on Compliance with Laws and Regulations*. We appreciate the efforts of your team and the independent auditor, Clifton Gunderson LLP, to work with the Federal Communications Commission (Commission) throughout the fiscal year (FY) 2007 audit process.

We are pleased that, for the second consecutive year, the independent auditor provided an unqualified opinion and found that the Commission's consolidated financial statements for FY 2007 present fairly, in all material respects, the financial position of the Commission as of September 30, 2007. We have worked very hard to continue strengthening the Commission's internal controls and improving its financial management. We are also pleased that, for the second consecutive year, the independent auditor has found that no "material weaknesses" affect the Commission's operations.

Despite these successes and efforts, we recognize that additional work remains. The FY 2007 *Report on Internal Control* notes three significant deficiencies, and the *Report on Compliance with Laws and Regulations* notes instances on non-compliance with one law and one regulation. We concur with the recommendations made by the independent auditor in its report.

In addressing the significant deficiencies, the Commission understands that the greatest opportunity and challenge to improving its financial reporting is to implement a new core financial management system. Last year, the Commission made the acquisition and implementation of a new core financial management system a top priority. The Commission followed through on this acquisition during FY 2007 with a comprehensive review and evaluation of the Commission's finance, accounting, and related processes. This review culminated in the release of the Commission's solicitation for proposals for a new core financial system at the close of FY 2007. The Commission plans to complete the deployment of the new financial system by October 1, 2009. At the same time, the Commission is closely monitoring the progress of its reporting components' efforts to modernize their financial systems.

In FY 2007, the Commission continued to enhance its oversight and control over the activities of its reporting components in order to improve fiscal management, strengthen accountability, and resolve audit findings related to its reporting components. Specifically, the Commission executed a memorandum of understanding (MOU) with its largest reporting component, the Universal Service Administrative Company (USAC), which administers the Universal Service Fund. The MOU sets forth specific financial reporting requirements and performance measures that will improve the financial reporting processes between the Commission and USAC.

With respect to the audit finding concerning timely transfer of delinquent debt to the Department of the Treasury for collection, the Commission has worked throughout the past fiscal year to remedy this issue. During FY 2007, the Commission performed a significant transfer of delinquent debt. The Commission has now referred all eligible loan debt to the Department of the Treasury and has reduced the balance of Administrative Receivables by 82% from $97,546,229 at the close of FY 2006 to $17,511,584 at the close of FY 2007. The Commission plans to fully address this issue in FY 2008.

With respect to the audit findings concerning compliance with OMB Circular A-130, the Commission is already working to fully assess the auditor's recommendations and to develop corrective action plans. Some findings have already been addressed (e.g., the certification and accreditation of key information technology systems), and are in the process of resolution. During FY 2008, the Commission will make every effort to complete corrective action for each of the recommendations associated with these findings.

Finally, the Commission notes that the findings of non-compliance in the *Report on Compliance with Laws and Regulations* were also generally referenced in the *Report on Internal Controls*. The Commission will take the appropriate steps to ensure future compliance as part of its efforts to remediate the significant deficiencies raised by the independent auditor.

We are committed to continually strengthening the internal controls of the Commission and its reporting components. This commitment includes developing timely, accurate, and useful performance and financial information to ensure the most effective stewardship of both the funds that the Commission oversees and the funds that the Commission uses to finance its operations. We look forward to working in FY 2008 to resolve the FY 2007 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

Anthony J. Dale, Managing Director
Office of Managing Director

Mark Stephens, Chief Financial Officer
Office of Managing Director

# 4. Other Accompanying Information

## *Summary of Financial Statement Audit*

| | | | | | |
|---|---|---|---|---|---|
| Audit Opinion | Unqualified | | | | |
| Restatement | No | | | | |
| | | | | | |
| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
| None to report | | | | | |
| | | | | | |
| | | | | | |
| *Total Material Weaknesses* | 0 | 0 | 0 | 0 | 0 |

## *Summary of Management Assurances*

| **Effectiveness of Internal Control over Operations (FMFIA § 2)** | | | | | | |
|---|---|---|---|---|---|---|
| Statement of Assurance | Unqualified | | | | | |
| | | | | | | |
| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| None to report | | | | | | |
| | | | | | | |
| | | | | | | |
| *Total Material Weaknesses* | 0 | 0 | 0 | 0 | 0 | 0 |

| **Conformance with financial management system requirements (FMFIA § 4)** | | | | | | |
|---|---|---|---|---|---|---|
| Statement of Assurance | Systems do not conform to financial management system requirements | | | | | |
| | | | | | | |
| Non-Conformances | Beginning Balance | New | Resolved | Consolidated | Reassessed | Ending Balance |
| Components' systems not fully compliant with SGL | ✓ | | ✓ | | | |
| System is not fully integrated | ✓ | | | | | ✓ |
| Perform functional requirement reviews | ✓ | | | | | ✓ |
| *Total Non-Conformances* | 3 | 0 | 1 | 0 | 0 | 2 |

# *Improper Payments Information Act Reporting Details*

## *I. Risk Assessments*

The Improper Payments Information Act (IPIA) requires Federal agencies to report annually on the extent of improper payments in the programs it administers and on actions taken to reduce such payments. After the requirements of IPIA went into effect, the Commission conducted a complete inventory of its programs that make disbursements. The Commission identified eight programs for analysis. During FY 2007, the Commission re-evaluated these eight programs. Based on the Commission's and independent auditors' evaluations of disbursements from these eight programs, there are two programs, the Universal Service Fund's (USF) Schools and Libraries Program and High Cost Support Program, that continue to have sufficient volume and error rates to warrant further investigation and monitoring. In prior reviews of its programs, the Commission had identified these two programs as susceptible for significant improper payments based on the information available. Further testing and analysis by the Commission's Office of Inspector General (OIG) confirmed the Commission's belief. The OIG's testing and analysis also resulted in the identification of a third USF program, the Low Income program, as being at risk for significant improper payments. Finally, it should be noted that the Commission's OIG performed testing and analysis of the fourth USF support mechanism, the Rural Health Care program, as well as the receipts function of USF, known as the USF Contributions Mechanism. Because neither the Rural Health Care program nor the USF Contributions Mechanism meets the IPIA criteria for reporting, no additional information on these programs is included here. The Commission's OIG has additional information about the results of its testing and analysis of all of these programs on its website at: http://www.fcc.gov/oig/.

## *II. Statistical Sampling Process*

The Commission's OIG worked with the USF Administrator, the Universal Service Administrative Company (USAC), to hire a professional statistician to develop statistical sampling plans to determine the location and number of USF beneficiaries that would be subject to audits. The statistical sampling plan called for a 90 percent confidence level. Disbursements made during FY 2005 to the USF beneficiaries in the sample were then audited, and the results were used to calculate improper payment rates for the universe of beneficiaries. Additional details are below concerning the methods used to test the three programs at risk of significant improper payments.

As noted in the OIG reports on the audits of these programs and reiterated below, the margins of error for High Cost and Schools and Libraries were outside the acceptable parameters established by the Office of Management of Budget (OMB) of plus or minus 2.5 percent for measuring improper payments. As a result, the Commission, its OIG, and USAC are working with OMB to refine the statistical methodology to produce improper payments results that are within OMB guidelines for FY 2008.

High Cost

As reported by the OIG, the High Cost program sample design was a simple random sample of 65 Study Area Codes pulled from a population of 1,896 Study Area Codes. Compliance determinations from the audits were limited to 53 providers for which the auditors were able to give an opinion. When including the 12 provider audits where no opinion was rendered in the improper payment estimate as each being a 100 percent improper payment due to lack of documentation, the results of the audits showed an improper payment rate of 16.56 percent with a plus or minus 10 percent margin of error.

Low Income

As reported by the OIG, the Low Income program sample design was a two-stage, stratified simple random sample of 60 Study Area Codes from a population database of 1,555 Study Area Codes. The

OIG estimated that the improper payment rate was 9.5 percent with a margin of error of plus or minus 2.1percent, which falls within the parameters of OMB's improper payments guidance.

Schools and Libraries

As reported by the OIG, the Schools and Libraries program sample design used a stratified simple random sample of 155 Funding Request Numbers from a population database of 95,558 Funding Request Numbers. The OIG estimated that the erroneous payment rate was 12.9 percent with a margin of error of plus or minus 4.5 percent.

### *III. Corrective Action Plans*

In developing its corrective actions plans, the Commission is working with the OIG, who is overseeing the audit portion of this process, and USAC, who is responsible to protect the USF by taking corrective action to implement the recommendations of the auditors. As noted previously, the OIG audited FY 2005 disbursements. The results of the audits showed various instances of non-compliance with the Commission's rules. The Commission understands that a significant area of concern raised by the auditors was a lack of documentation which the auditors could use to determine whether the beneficiaries were complying with the Commission's rules. Since the time of the disbursements which were tested in this round of audits, the Commission adopted rules, most recently in August of 2007, to strengthen the document retention requirements applicable to the USF programs. The Commission is interested in pursuing tests of disbursements that were made after these requirements went into effect to determine whether lack of documentation remains a concern.

In the near term, the Commission has directed the USF Administrator (USAC) to recover all improper payments identified by the auditors and to develop corrective action plans for all recommendations put forth by the auditors within 60 days. With respect to USF recoveries, the Commission established a self-executing recovery mechanism with the USF Administrator. Thus to the extent improper payments are discovered, the USF Administrator is required to initiate recovery of the improperly disbursed funds shortly after completion of the final audit report.

### *IV. Program Improper Payment Reporting (dollars in millions)*

| Program | FY 04 Outlays | FY 04 % | FY 04 $ | FY 05 Outlays | FY 05 IP % | FY 05 IP $ |
|---|---|---|---|---|---|---|
| High Cost - USF | N/A | N/A | N/A | $3,748 | 16.54% | $620 |
| Low Income - USF | N/A | N/A | N/A | $796 | 9.49% | $75.5 |
| Schools and Libraries - USF | N/A | N/A | N/A | $1,630 | 12.88% | $210 |

Notes: As discussed previously, the information in the table above was generated based on audits of disbursements made during FY 2005. There is no prior year information due to the fact that this round of audits was the Commission's first attempt to develop statistically valid estimates of improper payments in these programs. Because the sample sizes for the High Cost and Schools and Libraries programs were not large enough to produce results within the margin of error required by OMB's guidance, the Commission is not using these figures as its improper payments baseline for those programs. In approaching the second year of estimating, the Commission and the OIG are working with OMB to develop a sampling methodology that will produce results within the margin of error required by OMB guidance. For these reasons, future looking reduction target information is not included above for the High Cost and Schools and Libraries programs. In the case of the Low Income program, the margin of error was within the parameters of OMB's guidance. Moving forward, the Commission will be using the Low Income figure reported this year as a baseline. In terms of reduction target projections, however, the Commission is not in a position to make projections at this time for the Low Income program either. Although the statistical estimates have been provided by the OIG, detailed audit results describing the issues that led to improper payments are still being finalized. Until the Commission has a chance to obtain that data, properly analyze it, and understand what is driving the improper payments, it cannot set forward looking reduction targets for the Low Income program.

### *V. Recovery Auditing Reporting*

The Commission does not enter into contracts with a total value in excess of $500 million in a fiscal year and therefore is not subject to the recovery audit reporting requirements for this question. The Commission did review its commercial payment universe as a "program" during its risk assessment process. The Commission determined that its commercial payments were not at risk of significant improper payments.

### *VI. Management Accountability*

The Commission is still reviewing the results of the initial round of improper payment estimates reported by its OIG. Once the Commission has a better understanding of the potential causes of improper payments, it will be better situated to apply additional accountability measures to its management. In the interim, the Commission stands by its internal control risk assessment process and views its annual assurance statement as required by the Federal Managers' Financial Integrity Act of 1982 as its ultimate statement of accountability. Furthermore, the Commission is working with USAC's management to implement performance measurements for program management that will help ensure accountability over USAC's operations and senior leadership.

### *VII. Agency Information Systems and Other Infrastructure*

The Commission is still reviewing the results of the initial round of improper payment estimates reported by its OIG and, as previously mentioned, will not be using these initial figures as its baseline for the High Cost and Schools and Libraries programs. In the case of the Low Income program, the Commission will be using the figure reported this year as a baseline. However, although the statistical estimates have been provided by the OIG for the Low Income program, the information surrounding the audit results and the issues that led to improper payments is still being finalized for all of the programs that were audited. Until the Commission establishes its baseline year for High Cost and Schools and Libraries, obtains the full audit results for the Low Income program, and is able to properly set reduction targets for all three programs based on an understanding of the issues, it is not in a position to know whether or not information systems and other infrastructure changes are appropriate at this time.

### *VIII. Statutory and Regulatory Barriers*

The Commission is not aware of any barriers at this time.

## *IX. Additional Comments*

The Commission learned a great deal over the past year from its experience with the first round of audits that were used to estimate improper payments. These audits will help to inform the Commission's and its OIG's approach to its FY 2008 audit program and will bring the Commission closer to having clearer insights into the causes of improper payments in these USF programs.

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## OFFICE OF INSPECTOR GENERAL

**MEMORANDUM**

**DATE:** October 16, 2007

**TO:** Chairman

**FROM:** Inspector General

**SUBJECT:** Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General is submitting its annual statement summarizing our assessment of the most serious management challenges facing the Federal Communications Commission (FCC) in Fiscal Year 2008 and beyond.

During our investigations and audits we have worked with managers at the FCC in recommending actions that best address these challenges. More information on this can be found in our last Semiannual Report to Congress.

**<u>Universal Service Fund ("USF")</u>**

The Telecommunications Act of 1996 created the framework for the Universal Service Fund, which consists of support mechanisms for: (1) providing financial support to eligible telecommunications carriers that serve high-cost areas; (2) assisting schools and libraries with telecommunications and internet services; (3) assisting low-income consumers with telephone service; and (4) assisting rural health care providers with telecommunications and internet services. The fund is administered by the Universal Service Administrative Company ("USAC").

There is an inherent risk of fraud and improper payments in the distribution of USF funds. The Office of Inspector General has initiated and supported numerous investigations of fraudulent activity and, through oversight of a USAC audit program, found very high rates of improper payments from the fund, particularly in its support of schools and libraries and the telecommunication carriers serving high cost areas. While the FCC and USAC have taken steps to reduce the potential for fraud and improper payments, more is needed. Improving the processes for fund administration, enforcement of FCC rules, and recovery of improper payments are significant management challenges.

**Telecommunications Relay Service ("TRS") Fund**

The TRS Fund compensates service providers for the reasonable costs 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 hearing or speech disabilities. Distributions from the fund have grown substantially in recent years and there is an inherent risk of fraud and improper payments because of the loose manner in which the fund is administered by the National Exchange Carrier Association ("NECA"). Yet no comprehensive audits had been conducted of the TRS service providers until the Office of Inspector General initiated an audit program in fiscal year 2007. Preliminary results from these audits point to a need for recurring audits of TRS providers. In addition, improving fund administration and the procedures for setting reimbursement rates for service are significant management challenges.

**Modernize the FCC**

As stated in its strategic plan, the FCC must "create and sustain an organizational culture that encourages innovation, accountability, and continual improvement" and "ensure that its processes, procedures, and systems are integrated, reliable, and user-friendly."

The establishment of an integrated and streamlined e-government infrastructure is a key component in the FCC's modernization effort. The FCC has initiated several information technology projects designed to improve internal operations and service to the public. These include acquisition of a new financial accounting system, upgrading the Universal Licensing System, and integration of multiple, individual databases. Management's challenge is to control and manage these projects so that they are consistent with e-government principles and are completed on schedule, within budget, and provide the functionality expected when the projects were started.

Another management challenge is to maintain effective financial management until the new core financial accounting system is implemented. The current financial system has several weaknesses that must be managed until remedied through a new system. For example, the current financial system is not integrated with key FCC systems and FCC reporting components (i.e., Universal Service Fund, Telecommunications Relay Services Fund, North American Numbering Plan). The FCC's consolidated financial statements are prepared from separate financial systems administered by separate reporting components. When preparing its financial statements, the FCC must go through the process of compiling financial data in separate spreadsheets in a complex and time-consuming process that, because of a lack of integrated automation, presents opportunities for mistakes and errors to become manifest through that process. The integrated financial accounting system envisioned for the FCC should address these problems. In the meantime, however, as noted above, it will be necessary for the FCC's management to continue to surmount these challenges.

Kent R. Nilsson

cc: Managing Director
Chief of Staff
Chief Financial Officer

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*Office of the Managing Director*

**M E M O R A N D U M**

**DATE:** November 14, 2007

**TO:** Kent R. Nilsson, Inspector General

**FROM:** Anthony J. Dale, Managing Director and Mark Stephens, Chief Financial Officer

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

Management appreciates the Office of the Inspector General's (OIG) assessment of the most serious management challenges facing the Federal Communications Commission (Commission) for fiscal year (FY) 2008 and beyond. In its October 16, 2007 memorandum, the OIG identifies four management challenges facing the Commission, including: (1) improving the administration of the Universal Service Fund (USF); (2) improving the administration of the Telecommunications Relay Service (TRS) Fund; (3) controlling and managing information technology (IT) projects; and (4) maintaining effective financial management until the new core financial accounting system is implemented.

Management concurs with the challenges identified by the OIG. In the upcoming year, management will continue to work with the OIG to address these challenges.

With respect to the challenge of improving the administration of the USF, the Commission took significant actions during FY 2007 that will improve the controls surrounding the USF for many years to come. First, the Commission adopted an order strengthening the safeguards against waste, fraud, and abuse of the USF by adopting document retention requirements, debarment provisions applicable to all USF programs, and penalties against providers who fail to comply with USF contribution rules. This order also took steps to improve the administration and management of the USF by implementing performance measures for the USF Administrator and the program. Second, the Commission adopted a Memorandum of Understanding (MOU) with the Universal Service Administrative Company (USAC) to improve the management, administration, and oversight of the USF. Among other things, the MOU requires the USF Administrator to perform its duties in a more efficient, effective manner. The MOU also strengthens the USF by requiring the USF Administrator to adopt certain financial management techniques required of Federal agencies, such as compliance with the internal control requirements contained in OMB Circular A-123. Finally, the Commission's OIG oversaw the completion of hundreds of audits of USF beneficiaries and contributors in order to help estimate the potential for improper payments. The Commission has already directed the USF Administrator to recover any improperly disbursed funds and to develop a plan for correcting any operational or other deficiencies that may contribute to making improper payments. Management is also reviewing the OIG's audit results to develop additional methods for preventing or reducing potential improper payments in the program.

With respect to improving the administration of the TRS fund, the Commission has taken several steps to address the misuse of two Internet-based TRS services, the Internet Protocol (IP) Relay Service and Video

Relay Service (VRS). First, the Commission continued its examination into the TRS Fund to identify anti-fraud measures that could be applied in the program. Second, the Commission has devoted additional internal resources to overseeing the finance, accounting, and auditing activities of the TRS Administrator. Management is continuing to explore and evaluate additional ways to improve the administration of the TRS fund.

With respect to the management of IT projects, the Commission has taken significant steps to improve in this area. Consistent with established e-government principles, the Commission's management updated the IT Strategic Plan during FY 2007. In addition, the Commission developed and implemented stronger IT planning techniques to ensure that projects develop the expected functionality on time and within budget. The Commission also started using performance-based contracting to ensure that its IT funds are used in an efficient, effective manner.

With respect to maintaining effective financial management in the absence of a new core financial system, the Commission has taken several important steps. First, the Commission started the procurement process to obtain a new core financial system at the end of FY 2007. In preparation for this procurement, the Commission performed a comprehensive evaluation of its business needs and enhanced its existing documented internal control structure. The Commission plans to complete the deployment of the new core financial system by October 1, 2009. In the meantime, the Commission has expanded its internal testing of its existing internal control structure, as well as its oversight of the finance, budget, and accounting operations.

We look forward to continuing to work with the Commission's OIG to identify and address challenges to the Commission's operations and to strengthen the culture of integrity, accountability, and excellence that exists at the Commission.

Anthony J. Dale, Managing Director
Office of Managing Director

Mark Stephens, Chief Financial Officer
Office of Managing Director

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