



FEDERAL COMMUNICATIONS COMMISSION

Fiscal Year 2006 Performance and Accountability Report

(October 1, 2005 – September 30, 2006)

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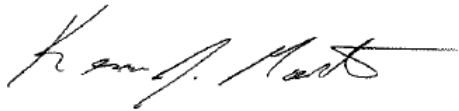
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Message from the Chairman

It is my great pleasure to present the Federal Communications Commission's (Commission) Fiscal Year 2006 Performance and Accountability Report. This report combines the Commission's performance and financial reporting in one document.

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 have paid off – the independent auditor notes in its report that the Commission has substantially strengthened its financial management. As a result, I am pleased to announce that, for the first time, 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. 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, 2006

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1. Management's Discussion and Analysis

Overview of the FCC

INTRODUCTION

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

Chapter 1 presents the Management's Discussion and Analysis, including: the Commission's mission; an overview of the agency's reporting structure; Fiscal Year (FY) 2006 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, while Chapter 3 presents the Commission's principal financial statements for FY 2006, notes to the consolidated financial statements, and required supplementary information. Appendix A contains a glossary of acronyms used in this report.

This PAR is a guide to key Commission initiatives and activities for FY 2006 that depicts the breadth of the Commission's work. An electronic version of the FY 2006 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 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

¹ 47 U.S.C. §151.

² *Id.*

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 most recent addition to the bureaus is the Public Safety and Homeland Security Bureau, which the Commission launched on September 26, 2006. The bureaus and offices active during FY 2006 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.

³ See 47 C.F.R. § 0.5 et seq.

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.⁴

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 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 low income consumers. In addition, these mechanisms provide support for discounts to schools and libraries and rural health care providers. Additional information on the USAC and the USF, respectively, can be found at: <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.

North American Numbering Plan (NANP) - The NANP is the basic numbering scheme permitting interoperable telecommunications service within the U.S., Canada, Bermuda, and most of the Caribbean. Section 251(e)(1) of the Act requires the Commission to create or designate one or more impartial entities to administer telecommunications numbering and to make such numbers available on an equitable basis. Section 251(e)(2) of the Act requires that the costs of number administration and number portability be borne by all telecommunications carriers on a competitively neutral basis, as determined by the Commission. In implementing section 251, the 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.

⁴ 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 utilization involves crafting proper economic incentives to relocate and continues to be challenging. Ongoing changes in the methods of delivering news and entertainment programming may introduce economic uncertainty and thus risk, into communications markets. Economic factors may also spur consolidation within the media industries that could potentially affect competition and diversity. In addition, the transition to digital delivery modes requires significant up-front financial investment from content providers, service outlets, and equipment suppliers prior to full rollout of the technology and eventual recouping of investment. Finally, litigation over important aspects of the regulatory framework related to broadband services, local competition, and media ownership has caused market and regulatory uncertainty.
- **Technology.** Despite significant recent developments, broadband infrastructure is not yet universally deployed, particularly in rural areas. Some platforms are not suitable for deployment in certain areas of the country due to physical impediments. Mobility and personalization are major trends in communications technology today. Both are dependent on wireless growth and innovation, as well as ease of interconnection with traditional networks. Explosive growth in new technologies — particularly handheld and wireless devices — has driven demand for new spectrum allocations. Increasing demand for spectrum requires new management techniques to allocate, assign, and use spectrum more efficiently and effectively. Integration of technology platforms makes the transition to digital television and radio technologically challenging and requires coordination among various industries. Finally, today's interconnected communications technologies are subject to an increasing number of threats – natural, man-made, physical and cyber.
- **Consumer Demand.** From the consumer's perspective, the retail price of broadband services relative to other services, such as dial-up Internet access, has affected adoption decisions, despite the availability of packages offering bundled broadband and other services.
- **International Developments.** 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 2006 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. The Commission recognizes that, while these programs and efforts may influence the marketplace, they do not control the marketplace. Included among the external influences, beyond the Commission'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 Commission's FY 2006-2011 Strategic Plan, which can be found at: <http://www.fcc.gov/omd/strategicplan>.

In FY 2006, 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 2006 Accomplishments in Broadband:

- Broaden the deployment of broadband technologies:
 - In December 2005, there were 50.2 million high-speed Internet access connections in service, representing a 33% increase over the previous year and a 293% increase from December 2001. The Commission generally defines high-speed Internet access as data transmission speeds greater than 200 kilobits per second;
 - Significant progress has been made in the deployment of mobile broadband networks over the past year. Several mobile wireless carriers are offering high-speed mobile Internet access services for cell phones, PDAs, and laptops using technologies such as CDMA (Code Division Multiple Access) 1x EV-DO (Evolution Data-Optimized) and WCDMA (Wideband CDMA)/HSDPA (High-Speed Downlink Packet Access). Mobile data, Internet, and entertainment services using these network technologies are currently being offered in at least 115 cities across the United States;
 - Reallocated spectrum in the 2 GHz Mobile Satellite Service Frequency Band to be used by satellite providers to offer expanded broadband services;
 - Initiated a rulemaking to examine barriers to entry in the local cable franchising process for new providers of video and broadband service, and, if the process is found to inhibit competition, to adopt corrective measures to enable streamlined roll-out of those services;
 - Allowed those with speech and hearing disabilities to communicate using the broadband Video Relay Service;
 - Provided consumers with information about the benefits of broadband;
 - Actively participated in both domestic and international forums to coordinate efforts to maximize broadband deployment;
 - Clarified the types of broadband services for which schools and libraries can receive support under the Universal Service Fund; and
 - Established a pilot program to help public and non-profit health care providers build state and region-wide broadband networks dedicated to the provision of health care services.
- Define broadband to include any platform capable of transmitting high-bandwidth intensive services, applications, and content:
 - Collected and provided statistical data on broadband connection speeds and Americans' access to broadband; and

- Granted a request for pricing flexibility for advanced services that rely on packet technology.
- Ensure harmonized regulatory treatment of competing broadband services:
 - Issued an order defining wireline broadband Internet access as an information service;
 - Sought comment on several petitions related to intercarrier compensation obligations applicable to certain IP-enabled services; and
 - Formed a joint task force with state utility commissions to enforce the requirement that VoIP services provide reliable E911 service.
- Encourage and facilitate an environment that stimulates investment and innovation in broadband technologies and services:
 - Modified the rules for the AWS-1 Band Plan to provide additional opportunities for smaller and rural wireless carriers to access this spectrum;
 - Completed the auction for Multichannel Video Distribution and Data Service licenses;
 - Initiated licensing and service rules for 17/24 GHz Broadcasting Satellite Service systems;
 - Made the rules for existing licensees and potential new entrants into the Broadband Radio and Education Broadband Services more flexible;
 - Modified the service rules for Advanced Wireless Services (AWS) in the 1.7 MHz and 2.1GHz bands making it easier for Third Generation (3G) mobile networks to provide voice, data, video, and other wireless broadband services; and
 - Auctioned highly valuable AWS spectrum through Auction #66, which resulted in net winning bids of \$13.7 billion.

FY 2006 Accomplishments in Competition:

- Promote access to telecommunications services for all Americans:
 - The percentage of U.S. consumers that could choose between multiple wireline and wireless service providers continued to increase in 2005. 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 2005. 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 2005;
 - The consumer price for telephone services has declined by approximately 5% over the last eight years in comparison to the consumer price for all goods and services, which increased by more than 20%. The average price of wireless telephone calls has fallen over this period as well. The average price per wireless minute of use per month for mobile telephone service, including both individual and business users, has fallen over the past five years, decreasing from 18 cents per minute in 2000 to 7 cents per minute in 2005;
 - Preserved and advanced the USF by broadening the contribution base in a competitively neutral manner;
 - Improved the financial management of the USF;
 - Increased the awareness of low-income consumers about the telecommunications programs and services available to them; and
 - Enhanced the administration of the Telecommunications Relay Service through several rulemakings and granting certification applications.

- Ensure that American consumers can choose among multiple reliable and affordable communications services:
 - Finalized its rules for carrier current systems that provide access to broadband services using electric utility companies' power lines. Broadband over Power Line will provide broadband services to homes and will give consumers an additional choice in broadband providers;
 - Adopted rules clearing the way for an auction that the Commission then conducted for 90 megahertz of spectrum for Advanced Wireless Services, including wireless broadband, in the 1710-1755 and 2110-2155 MHz band;
 - Granted forbearance from unbundling requirements in a market where one type of competitor had taken significant market share;
 - Revised the competitive bidding rules to implement the Commercial Spectrum Enhancement Act;
 - Initiated a rulemaking considering whether wireless carriers are engaging in anticompetitive conduct;
 - Reviewed hundreds of applications for assignment or transfer of control to ensure these transactions did not hinder competition; and
 - Informed Congress on the market conditions of communications services by producing reports on competitive market conditions for various communications services.

- Promote pro-competitive and universal access policies worldwide:
 - Participated in numerous international telecommunications forums and conferences;
 - Developed recommendations for measures to protect U.S. service providers from anticompetitive conduct by foreign carriers; and
 - Hosted over 445 visitors from 75 countries.

- Work to inform American consumers about their rights and responsibilities in the competitive communications marketplace:
 - Collaborated with the National Association of Regulatory Utility Commissioners to encourage the effective implementation of VoIP services;
 - Adopted rules to implement the Junk Fax Prevention Act; and
 - Initiated a rulemaking to examine whether additional privacy protections are needed for sensitive customer information held by telecommunications companies.

- Enforce the Commission's rules for the benefit of consumers:
 - Issued citations and entered into consent decrees with several companies for violations of the customer proprietary network information privacy protections;
 - Issued 45 citations against violators of the Junk Fax Prevention Act; and
 - Issued citations, a forfeiture order, and a consent decree against violators calling residential telephone lines with prerecorded, unsolicited advertisements.

FY 2006 Accomplishments in Spectrum:

- Ensure that the Nation's spectrum is used efficiently and effectively:
 - Conducted five spectrum auctions, including the auction of 90 MHz of Advanced Wireless Services spectrum after relocating those services that had previously occupied the 1710-1755 and 2110-2155 MHz bands;
 - Sought public comment on creating a spectrum test-bed;
 - Clarified rules for operation of unlicensed devices in the 5 GHz band;

- Proposed new rules and policies for distributed transmission services;
 - Investigated the marketing and importation of some Global Positioning Satellite devices to determine if they interfere with federal government navigation systems, personal emergency response equipment, position locator radio beacons, and digital audio music devices;
 - Investigated complaints of interference from FM modulators and portable satellite radio receivers with built-in FM transmitters;
 - Adopted rules implementing the Commercial Spectrum Enhancement Act;
 - Enhanced equipment certification procedures to encourage the development of new advanced technologies;
 - Audited approximately 1200 equipment certification grants for technical accuracy and compliance with rules;
 - Undertook numerous enforcement actions to ensure public safety rules are followed;
 - Authorized several providers to construct advanced ancillary terrestrial facilities reusing satellite spectrum to bolster service in areas where satellite signals may be blocked; and
 - Proposed a plan to allow satellite television companies to provide service from satellites using previously unassigned channels and from orbital locations assigned to the U.S.
- Advocate U.S. spectrum interests in the international arena:
 - Made significant progress in securing international spectrum allocations for new services while protecting incumbent services from interference;
 - Successfully completed satellite coordination efforts with European and Asian countries;
 - Participated in the eighth High Level Consultative Commission with Mexico; and
 - Signed an interim agreement with Canada to permit public safety use of reallocated channels 63 and 68.

FY 2006 Accomplishments in Media:

- Facilitate the transition to digital television and further the transition to digital radio:
 - Completed the multi-round channel election process;
 - Accelerated the date by which 13"-24" television receivers must include the capability to receive broadcast digital television signals;
 - Continued the outreach campaign, in conjunction with the Consumer Electronics Association, to educate the public about the transition to digital television;
 - Solicited comment from the public regarding an industry proposal on software-based access to digital cable programming; and
 - Led a technical study group within the International Telecommunication Union to work on issues related to standards for large screen televisions.
- Reevaluate media ownership rules in light of a changing marketplace and judicial review:
 - Sought comment on the Commission's rules about media ownership; and
 - Asked for proposals on how to advance minority and disadvantaged businesses and to promote diversity.
- Enforce compliance with media rules:
 - Issued over \$128,000 in Notices of Apparent Liability and Forfeiture Orders related to violations of Commission media rules;
 - Conducted face-to-face bilateral discussions with Mexico and Canada on cross-border interference issues; and

- Complied with all statutory deadlines for implementation of the Satellite Home Viewer Extension and Reauthorization Act.

FY 2006 Accomplishments in Public Safety and Homeland Security:

- Promote the reliability, security, and survivability of the communications infrastructure:
 - Launched the Commission's new Public Safety and Homeland Security Bureau;
 - Responded to Hurricane Katrina by launching the Commission's Gulf Coast Disaster Response effort which issued more than 100 Special Temporary Authorizations to storm-affected entities and made \$211 million in Universal Service Fund benefits available to areas affected by Hurricane Katrina;
 - Established the Independent Panel Reviewing the Impact of Hurricane Katrina on Communications Networks;
 - Initiated a Notice of Proposed Rulemaking concerning the recommendations of the Independent Panel Reviewing the Impact of Hurricane Katrina on Communications Networks;
 - Drafted several emergency preparedness documents including the Emergency Support Function-2 Operations Plan;
 - Proposed modifying service rules for certain channels within the 700 MHz Public Safety Band to accommodate public safety broadband applications in this area of spectrum that will be freed by the transition to digital television;
 - Participated in two emergency preparedness exercises;
 - Held numerous meetings and workshops throughout the country to discuss critical communications infrastructure with tribal government representatives; and
 - Assisted the National Communications System in devising and implementing training for emergency personnel.

- Facilitate deployment of public safety technology:
 - Monitored deployment of wireless E911 and Mobile Satellite Service E911 call center reports;
 - Adopted Communications Assistance for Law Enforcement Act compliance dates for both facilities-based broadband Internet access providers and providers of interconnected VoIP;
 - Released Emergency Alert System rulemaking items that expanded the scope of the Emergency Alert System to include digital radio and television, digital cable, and the Satellite Digital Audio Radio and Direct Broadcast Satellite services;
 - Oversaw the implementation of the 800 MHz rebanding effort to free this spectrum for use by public safety and homeland security officials;
 - Coordinated with the Department of Homeland Security and other federal entities on several rulemakings designed to enhance the Nation's public safety and homeland security infrastructure;
 - Continued to make the Media Security and Reliability Council's best-practice recommendations available to the Nation's AM, FM, TV, Cable, and Satellite operators; and
 - Released the Dedicated Short Range Communications Memorandum Opinion and Order, which made this vehicle-to-vehicle and vehicle-to-infrastructure service eligible for public safety as well as commercial uses.

FY 2006 Accomplishments in Modernizing the FCC

- Become an easier organization with which to do business by integrating systems, processes, and interfaces:
 - Continued the multi-year roll-out of a modern, automated system for handling consumer concerns;
 - Reduced the time it took to process complaints filed with the Commission;
 - Upgraded the Commission's automated licensing and permitting functions;
 - Enhanced the Commission's computer network to minimize downtime and improve performance;
 - Made it easier to apply for a job at the Commission;
 - Allowed the public to easily find out about the Commission's Paperwork Reduction Act Information Collections;
 - Described and grouped web information in a user-friendly manner;
 - Decreased the time it took to process earth station and space station applications by 14% and 9%, respectively;
 - Started to upgrade the Commission's computer systems; and
 - Conducted an online privacy training course for employees and contractors, which had a 100% participation rate for the entire Commission.

- Create and sustain an organizational culture that encourages innovation, accountability, and continual improvement:
 - Strengthened the Commission's internal controls and financial management;
 - Continued development of the Strategic Human Capital Plan;
 - Took action to address areas of low employee satisfaction;
 - Gave employees the tools they needed to be innovative and accountable;
 - Verified, instead of assuming, the continued relevance and need for Commission rules; and
 - Studied ways to improve the Commission's web site.

- Ensure effective communications with consumers, Congress, the communications industry, and fellow Federal, State, tribal, and local agencies:
 - Became more accessible to all consumers by implementing web-based complaint forms (Forms 475 and 475B) in Spanish;
 - Kept consumer information current and relevant;
 - Kept effective communications going during times of emergency;
 - Protected and respected privacy rights by developing and implementing a new, fully-featured, fully-compliant set of on-line Privacy Policies for the Commission's entire Internet site; and
 - Used information efficiently so that a consumer only needed to file a complaint once in order to have it acted upon as both a consumer complaint and any potential enforcement action.

FINANCIAL HIGHLIGHTS

Possible Future Effects of Existing Events and Conditions

The auction of highly valuable Advanced Wireless Services spectrum in Auction #66 resulted in net winning bids totaling \$13.7 billion. As of the end of FY 2006, the Commission was holding \$3.0 billion in deposits applied towards winning bids for Auction #66. The Commission expects to receive final deposits on these licenses in the 1st quarter of FY 2007. As a result of these deposits, the Commission has seen a significant increase in the amount of interest earned in the Treasury Demand Account. This interest will be transferred to the Telecommunications Development Fund in the 1st quarter of FY 2007 as well.

Historically, the outstanding Loans Receivable and related Debt to Treasury have comprised the largest balances within the Commission component of the consolidated financial statements. These balances have been in excess of \$1.0 billion since the second borrowing was completed in FY 1997 and as high as \$9.6 billion and \$5.3 billion respectively in FY 2000. The resolution of the Nextwave Communications Inc. bankruptcy and subsequent re-auction of the returned licenses in Auction #58 has reduced these balances to \$149.4 million and \$449 million respectively in FY 2006. The Commission will look to begin closing out many of its existing loan cohorts in FY 2007.

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.

Financial Statements

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

Consolidated Balance Sheet

	FY 2006 (Dollars in thousands)	FY 2005 (unaudited) (Dollars in thousands)	FY 2004 (Dollars in thousands)
Total Assets	\$9,843,444	\$7,717,243	\$7,367,698
Total Liabilities	\$4,631,723	\$3,283,017	\$5,062,065
Total Net Position	\$5,211,721	\$4,434,226	\$2,305,633

The Commission's most significant assets are Fund Balance with Treasury of \$607 million, Investments of \$4.7 billion, Cash and Other Monetary Assets of \$3.2 billion, and Accounts Receivable of \$1.2 billion. Together, these balances accounted for 98% of total assets as of September 30, 2006.

The large Investments balance of \$4.7 billion 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 \$2.7 billion in Schools & Libraries and Rural Health Care commitments against this balance at September 30, 2006.

The Cash and Other Monetary Assets balance of \$3.2 billion results from the large auction deposits made by bidders to participate in the AWS auction. The deposits are currently broken into \$3.0 billion reserved

for winning bids, \$38.2 million in refundable deposits, \$28.6 million in interest earned on deposits and \$358 thousand in penalties.

The Accounts Receivable balance of \$1.2 billion is primarily composed of USF receivables totaling \$652.7 million. Included in the USF balance is one receivable of \$225 million for Treasury Securities that matured on September 30, 2006 but did not settle until the next fiscal year.

The Commission's most significant liabilities are debt of \$449 million, Deferred Revenue of \$3.1 billion, and Accrued Liabilities for Universal Service of \$451.9 million which accounted for 86% of total liabilities as of September 30, 2006. All of the debt is owed to Treasury for borrowing related to credit reform installment loans. The bulk of the deferred revenue balance is related to the \$3.0 billion in deposits reserved against Auction #66 winning bids. The accrued liabilities for universal service represent the expected October (FY 2007) payments for the High Cost and Low Income programs.

Net position consists primarily of the balance contributed by the Cumulative Results of Operations, which was \$5.2 billion as of September 30, 2006, and accounted for 99% of Net Position. The USF component comprises \$5.1 billion, most of which is derived from the carryover situation discussed above as related to the \$4.7 billion investment balance.

Consolidated Statement of Net Cost

	FY 2006 (Dollars in thousands)	FY 2005 (unaudited) (Dollars in thousands)	FY 2004 (Dollars in thousands)
Net Cost of Operations	\$7,330,203	\$6,567,681	\$7,019,802

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 2006 was \$7.3 billion, of which \$7.2 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	\$ 179,298
NANP	\$ 3,695
USF	\$7,147,210

Consolidated Statement of Changes in Net Position

	FY 2006 (Dollars in thousands)	FY 2005 (unaudited) (Dollars in thousands)	FY 2004 (Dollars in thousands)
Unexpended Appropriations	\$17,843	\$24,617	\$38,155
Cumulative Results of Operations	\$5,193,878	\$4,409,609	\$2,267,478

The total Net Position increase of \$777.5 million since September 30, 2005 is attributed mostly to the \$835.2 million increase in USF Cumulative Results of Operations, which stems from the continued collection of receipts greater than disbursements.

Combined Statement of Budgetary Resources

	FY 2006 (Dollars in thousands)	FY 2005 (unaudited) (Dollars in thousands)	FY 2004 (unaudited) (Dollars in thousands)
Total Resources	\$11,199,260	\$11,611,391	\$17,428,637
Appropriations Received	\$8,306,644	\$ 9,899,436	\$16,686,878
Obligations Incurred	\$8,934,108	\$10,537,828	\$17,096,559

Appropriations received in FY 2006 consisted of \$1.0 million for FY 2006 Salaries & Expenses (S&E) that is net of a \$288.8 million regulatory fee offset and \$145.2 million for credit subsidy. The USF accounts for the remaining \$8.2 billion.

Consolidated Statement of Custodial Activity

	FY 2006 (Dollars in thousands)	FY 2005 (unaudited) (Dollars in thousands)	FY 2004 (Dollars in thousands)
Custodial Liability	\$ 152	\$ 222	\$ 310

The Commission reported \$534 million of custodial revenue as of September 30, 2006. Credit Reform represents \$276.3 million, Spectrum Auctions represents \$108.6 million, auction interest represents \$28.9 million, and the remaining \$120.3 million derives from fines and penalties. In FY 2006 the Commission transferred \$111.4 million to Treasury for auction collections, \$98.4 million for Credit Reform Interest and \$100.1 million for fines and penalties. The Commission also retained \$85 million to support the Auctions program. The net custodial activity accounts for the decrease in custodial liability of \$80.6 million from FY 2005 to FY 2006.

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 2007 subsidy reestimate was completed to reflect the actual loan performance through May 31, 2006 and projected performance through September 30, 2006. The reestimate resulted in a net upward adjustment (increase in the subsidy cost), including interest on the reestimate, totaling \$22.4 million in the Spectrum Auction program.

This reestimate is reported in the Commission's FY 2006 financial statements, but will not be reported in the budget until FY 2007. For more details, see financial statement Footnote 7 in Chapter 3.

Loan Repayments

Borrowers are required to repay loans on a quarterly basis and are allowed to prepay their loans without penalties. In FY 2006, 117 loans were paid off. Collections resulting from these loan payoffs, which include principal, interest, suspension interest, and late fees, totaled \$15.1 million. When compared with the Commission's total collections of \$47.8 million in principal, interest, suspension interest, and late fees, these loan payoffs represent approximately 32% of all collections.

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 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 deposited directly into the Treasury to offset the Commission's appropriations for the current fiscal year. In FY 2006, the Commission was required to collect \$288.8 million, plus an additional \$10 million as required by the Deficit Reduction Act of 2005, P.L. 109-171. The Commission actually collected \$309.8 million. Fee collections in excess of the appropriated amount are not available for obligation in FY 2006.

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 17 major applications and two general support systems. Currently, two applications are going through the C&A process, one as a replacement application and the second due to major changes. The C&A's should be current by the end of the first quarter of 2007. In addition, during FY 2006, the Commission conducted internal risk assessments of its controls over privacy information to ensure that the appropriate controls are in place and are functioning properly. Finally, the Commission started a comprehensive review of the security controls for access to the Commission's headquarters.

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.

Continuity of Operations and Disaster Recovery Plan

The Commission has implemented a full Continuity of Operations Plan (COOP). Additionally, the Commission has implemented an Information Technology Disaster Recovery Plan (IT DRP). As part of the IT DRP, a business impact analysis (BIA) and an alternate processing options analysis (APOA) were completed in April 2003 to ensure that mission-critical systems are included in the plan. The IT DRP establishes thorough plans and procedures and technical measures that allow the Commission's network and applications to be recovered quickly and effectively following a service disruption or disaster. The Commission successfully tested its COOP and IT DRP during the May 2004, June 2005, and June 2006 Federal government-wide continuity of operations exercises, "Forward Challenge '04," "Pinnacle '05," and "Forward Challenge '06," respectively.

Security Planning

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 17 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.

Computer Security Incident Response

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. In the process of formalizing these activities under the newly-established Network Security Operations Center (NSOC), these security events 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 forums 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 and E-Government Act

The Commission developed, coordinated and successfully implemented a new, fully-featured, fully-compliant set of on-line Privacy Policies for the Commission's entire Internet presence in accordance with information security portions of the E-Government Act and as part of the agency's Privacy Improvement Plan to bring the Commission into compliance with all statutory, regulatory, and Administration-policy requirements for Federal privacy programs. Compliance efforts included: a new and more comprehensive stand-alone Privacy Policy webpage suite; a modern machine-readable version

of the privacy policy; a new Privacy Act webpage; a policy reference file; a revised Web Policies page; a revised Commission standard webpage template; a detailed internal reference website on privacy issues for Commission information technology center and website staff; and an online privacy training course for employees and contractors, which had a 100% participation rate for the entire Commission.

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 a report on internal controls as part of its FY 2005 audit. That report identified material weaknesses in four areas - the overall control environment, the financial reporting of several component entities, auction transactions, and contingency planning. Six areas of reportable conditions were also reported - financial reporting, cost accounting, reconciliation of intergovernmental transaction balances, payroll and personnel, DCIA compliance, and electronic data processing. Throughout FY 2006, the Commission worked diligently on closing the audit findings from the FY 2005 audit as well findings from previous audits. The Commission made significant progress on resolving dozens of recommendations. The Commission's efforts to resolve these issues are discussed later in this chapter in the section on the Commission's compliance with the Federal Managers' Financial Integrity Act.

Furthermore, during FY 2006, the Commission engaged in a systematic risk assessment process of its operations as described in OMB Circular A-123. 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, the Commission reviewed and made revisions to its strategic plan for FYs 2006-2011. The agency further fulfills its GPRA obligations by developing performance budgets, which incorporate the previously-required annual performance plan, and integrating the required annual performance report into Chapter 2 of the Performance and Accountability 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).

In general, data sources are internal reports generated by various Commission bureaus and offices,⁵ 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 guidance on PART for FY 2006, PARTs were conducted for the following Commission programs during FY 2006:

- 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 - FY 2008 budget;
- Telecommunications Relay Service - FY 2008 budget; and
- Auctions - FY 2008 budget.

Additionally, as part of its program of internal controls, the agency took several steps in FY 2006 to strengthen the Commission's internal controls program and to adhere to the requirements of OMB Circular A-123. The Commission established a Senior Management Council (SMC) and a Senior Assessment Team. The SMC directed Commission staff to conduct eleven targeted risk assessments in areas the SMC determined to be of the greatest concern. The Commission also placed an increased emphasis on resolving findings from past audits, instituted new financial tracking procedures, and completed a comprehensive review of its existing contracts.

Finally, during FY 2006 the Commission also provided significant input to four reports issued by the U.S. Government Accountability Office (GAO). The GAO reports were:

1. *Strong Support for Extending FCC's Auction Authority Exists, but Little Agreement on Other Options to Improve Efficient Use of Spectrum (GAO-06-236);*
2. *Challenges to Assessing and Improving Telecommunications for Native Americans on Tribal Lands (GAO-06-189);*
3. *Weaknesses in Procedures and Performance Management Hinder Junk Fax Enforcement (GAO-06-425); and*
4. *Broadband Deployment is Extensive throughout the United States, but it is Difficult to Assess the Extent of Deployment Gaps in Rural Areas (GAO-06-426).*

In addition, GAO sought information from the Commission in preparing reports or testimony on these subjects: (1) spectrum interference associated with military land mobile radios, (2) safeguarding of social security numbers when accessed by contractors, (3) Hurricane Katrina preparedness, response, and recovery, (4) states' collection and use of funds for wireless enhanced 911 services, (5) challenges in developing a joint public/private recovery plan for internet disruptions, and (6) coordination between EEOC and OPM in leading federal workplace equal employment opportunity.

Six GAO reports with Commission input were pending as of the end of the fiscal year.

⁵ 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 four key performance measures to assess agency compliance with its government-wide financial reporting requirements, including reporting on intragovernmental activity. The four performance measures include timeliness, reconciliation of unexplained differences, consistency/integrity, and completeness.

The Department of the Treasury has communicated to the Commission that for FY 2005 the Commission complied with:

- Requirements for timely reporting for its closing package and intragovernmental activity;
- Reconciliation of any unexplained differences for its intragovernmental activity;
- Consistency and integrity of audited financial statements data using the closing package process; and
- Completion of intragovernmental Inspector General Agreed Upon Procedures review.

Because the FY 2006 information will not be available until after the FY 2006 Performance and Accountability Report is submitted, the Commission is reporting on FY 2005. The Commission will report on FY 2006 FACTS II and intragovernmental reporting activities in the FY 2007 PAR.

Action on Inspector General (IG) Audit and Government Accountability Office (GAO) Recommendations

As of October 1, 2005, there were over 250 open audit recommendations from fiscal years 1999 through 2005. The Commission dedicates significant resources to addressing open audit recommendations. Between October 1, 2005, and September 30, 2006, management completed action on 173 IG audit or GAO recommendations. As of October 1, 2006, 163 recommendations remain open, of which 101 are older than one year. The Commission will continue to move towards addressing these open audit recommendations in order to improve its financial management.

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 implemented the DCIA requirements. 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 DCIA to allow more opportunity to resolve issues. As of November 1, 2004, the Commission began enforcing the DCIA by implementing the Red-Light rule. All licensing systems and bureaus/offices within the Commission check for delinquent debts before issuing a license or permit, or granting a license. In FY 2006, the Commission transferred outstanding debt totaling \$19.4 million for loans to the Department of the Treasury.

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

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

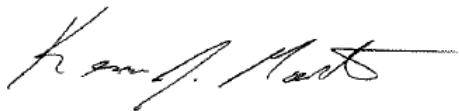
As of now, no baseline comprehensive improper payment rate has been established for either program. However in accordance with Appendix C of OMB Circular A-123, the Commission has developed a plan to obtain a statistically valid estimate of improper payments in both programs. In FY 2006, the Office of Inspector General (OIG) and the Commission's contracting office submitted a request for proposal to competitively bid the high cost audits. A number of firms have been chosen to perform these audits and have started the process to provide the Commission with an opinion on the beneficiaries' compliance with Commission rules. For the schools and libraries program, the OIG along with the Office of Managing Director exercised an option year with the existing audit firm, KPMG, LLP. The firm has initiated these audits. Additionally, during FY 2006 the Commission's OIG, in conjunction with the USF administrator (USAC) and its statistical contractor developed a statistical audit plan calling for approximately 155 audits in the schools and libraries program as well as 65 audits in the high cost program. The sampling methodology was designed using an approach to test a sufficient number of beneficiaries, and to provide a statistically valid improper payment rate that can be generalized to the total universe in both of the programs. The Commission anticipates that these audit results will appear in next year's PAR. These results should meet the goal of having a firm statistical conclusion concerning the error rate in each program on or before September 30, 2007.

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, 2006 were operating effectively and no material weaknesses were found in the design or operation of internal controls. This is the first time the Commission has been able to provide the preceding assurance. 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, 2006

Status of Controls Over Financial Reporting – Section 2 of FMFIA

During FY 2006, the Commission engaged in a concentrated effort to improve and strengthen its internal controls. The Commission conducted 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. Also throughout FY 2006, the Commission worked diligently on closing audit findings from previous audits and made significant progress on resolving the four material weaknesses that were reported by the Commission's auditors in the FY 2005 *Independent Auditor's Report on Internal Control over Financial Reporting*. The material weaknesses reported by the Commission's auditors in FY 2005 related to the Commission's control environment; the component entities financial reporting controls; auction transactions; and Commission's contingency plans. All of these past material weaknesses have been addressed and are no longer material weaknesses as of the end of FY 2006. Below is a description of each of these four prior year material weaknesses, the corrective actions taken by the Commission in FY 2006 to resolve these material weaknesses, and, where applicable, any corrective actions planned for the future.

I. Control Environment

Description: The Commission's auditor identified a material weakness in fiscal year 2005 related to the Commission's control environment. This issue was raised with regard to the Commission's control environment for financial reporting, and the auditors sought clarification as to the Commission's control structure for approving external financial reports.

Corrective Actions Taken: During fiscal year 2006, the Commission reviewed all delegations of authority related to the Office of the Managing Director to confirm that all of the delegations were appropriate and were operating effectively. The Commission also worked to ensure that all external reporting timeframes were met by strengthening supervision, conducting regular status updates, defining team members' responsibilities, and resolving longstanding financial management weaknesses. The Commission's internal audit review and close out process has deemed this material weakness to be closed.

II. Component Entities' Financial Reporting Controls

Description: The Commission's auditors identified this material weakness as a part of the fiscal year 2005 audit process. The material weakness was based on a collection of new and existing financial reporting weaknesses in the Commission's reporting component entities, which include USF, TRS, and NANP. These financial weaknesses could affect the Commission's ability to rely on the information reported by the Commission's reporting component entities. The financial reporting weaknesses identified by the auditors included weaknesses related to: controls over budgetary transactions with USF and TRS; accuracy and completeness of obligations recorded by USAC for USF commitments; timeliness of transaction entry and reconciliation by USAC; controls over USF investment transactions; and controls over USAC compliance with laws and regulations. These financial weaknesses represent a conglomeration of prior year findings, some of which were first identified in fiscal year 1999, and have been modified over time through subsequent audits.

Corrective Actions Taken: During fiscal year 2006, the Commission worked with its reporting components to ensure that financial policies and procedures were finalized to increase control over budgetary transactions. The Commission worked with USAC to establish written policies and procedures to ensure the accuracy of its commitment letter amounts. The Commission oversaw USAC's implementation of new procedures to verify and validate its commitment letter balances. The Commission developed new roles and responsibilities within the Commission to coordinate USF

oversight across bureaus and offices. The Commission worked with USAC to clarify its accounting procedures and implement new quality control procedures. The Commission made certain that USAC tightened up its control over USF investment transactions. Finally, the Commission expanded audit oversight of USF.

Corrective Actions Planned: Additional work needs to be done to resolve some of the recommendations surrounding this material weakness. Several of the current recommendations relate to deficiencies with USAC's current financial management systems. USAC is planning to acquire a new financial system that will meet government-wide financial system requirements and which will resolve several recommendations. Furthermore, the Commission will continue to work with NECA to ensure that the TRS financial statements are compiled according to applicable accounting standards. Although there is more work to be done, the Commission believes that the material weakness identified as component entities financial reporting controls in the fiscal year 2005 audit, no longer exists as a material weakness as of September 30, 2006.

III. Auction Transactions (Modified Repeat Condition)

Description: The Commission's auditors first identified auction transactions as a material weakness in fiscal year 2003. This material weakness was a modified repeat condition in both the fiscal year 2004 and 2005 audits. The material weakness consists of two factors. The first factor is related to timely and proper recording of auction revenue and receivables. The audit finding points out that the Commission lacks a directive to address the flow of communication and documentation to timely and properly record auction and licensing activities that have a financial impact. The second factor for this material weakness surrounds the Commission's use of spreadsheets as the subsidiary ledger system to support auctions activity and the inherent risks of relying on spreadsheets.

Corrective Actions Taken: During fiscal year 2006, the Commission implemented new change control procedures over its spreadsheet applications to ensure that changes are reviewed and authorized. Furthermore, the Commission worked with its bureaus to improve communication and to draft a directive concerning communications related to recording auction and licensing activities.

Corrective Actions Planned: The directive that was drafted during fiscal year 2006 will be completed and implemented during fiscal year 2007 to ensure proper communication within the Commission related to auction activity and timely and proper recording of its financial impact. In addition, the Commission is planning to acquire a new core financial management system, which will include database functionality that will allow the Commission to better track the details of each license and to avoid reliance on spreadsheets. The target date for the implementation of the new financial system is October 1, 2009. Although there is more work to be done, the Commission believes that the material weakness identified as auction transactions in the fiscal year 2005 audit, no longer exists as a material weakness as of September 30, 2006.

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

Description: The Commission's auditors first identified the Commission's contingency plans as an audit finding in fiscal year 1999. The Commission's contingency plan finding was reported as a modified repeat condition and a material weakness in the fiscal year 2005 audit. The material weakness was based on the auditor's finding that the Commission had not fully developed disaster recovery and continuity of operations plans by the end of fiscal year 2005. The auditors noted that plans were being developed and progress was being made but that more work remained to be done.

Corrective Actions Taken: During fiscal year 2006, the Commission made major improvements in this area. The Commission completed work on a comprehensive disaster recovery plan to support the recovery of information technology systems in the event an incident disrupts service. The Commission successfully tested its disaster recovery plan and continuity of operations plan during fiscal year 2006. Furthermore, the Commission took steps to broadly promote disaster recovery efforts through its response to Hurricane Katrina and the establishment of the Public Safety and Homeland Security Bureau.

Corrective Actions Planned: During fiscal year 2007, the Commission will continue to evaluate its existing systems and update its disaster recovery plan accordingly. Although there is more work to be done, the Commission believes that the material weakness identified as the Commission's contingency plan in the fiscal year 2005 audit no longer exists as of September 30, 2006.

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 discussed in the auditor's fiscal year 2005 report, the Commission's financial management systems do not substantially conform to government-wide requirements. The auditors noted the following non-conformances: the Commission lacks a single integrated financial management system; the Commission's systems and its reporting component entities' systems are not fully consistent with the U.S. Standard General Ledger; and the Commission needs to enhance the security of its financial management systems.

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. Currently, the Commission is evaluating its options to move to a new core financial management system that will best meet the Commission's business needs and in addition will bring the Commission into substantial compliance with government-wide requirements. The Commission plans to go live with this new system beginning on October 1, 2009.

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2. Program Performance

The FY 2006 performance accomplishments reported in this chapter conform to the strategic and performance goals identified in the Commission'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. 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 mean that the performance data in this chapter may differ from that reported in previous years under the prior strategic plan. Where possible, we have attempted to provide a final year of data on the performance indicators that began under the prior strategic plan. However, in future years, reviewers should expect different performance accomplishments data.

As with the past two Performance and Accountability Reports (FY 2004 and FY 2005), the activities 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 isolated to that goal. Indeed, any one accomplishment may be directly relevant to our progress in achieving other goals as well.

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BROADBAND

Strategic Goal:

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

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 2006 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 2006 PERFORMANCE HIGHLIGHTS

Broaden the deployment of broadband technologies:

- Rural Health Care Mechanism Pilot Program – The Commission adopted an Order to establish a pilot program to help public and non-profit health care providers build state and region-wide broadband networks dedicated to the provision of health care services, and connect those networks to Internet2, a dedicated nationwide backbone. The construction of such networks will bring the benefits of innovative telehealth, and particularly, telemedicine services to those areas of the country where the need for those benefits is most acute. Broadband communications will enable health care providers to vastly improve access to underserved areas of the country that lack access to the breadth of medical expertise and advanced medical technologies available in other areas.
- Video Relay Service (VRS) – The Commission adopted a number of items to facilitate the provision of Video Relay Service (VRS), which, using a broadband connection,

allows those with speech and hearing disabilities to communicate with hearing persons in real time using American Sign Language (ASL). The Commission adopted a Notice of Proposed Rule Making (NPRM) seeking comment on how to ensure that users of IP based forms of TRS, including VRS and IP Relay, have full access to emergency services through the E911 system. The Commission adopted an Order facilitating the entry of new stand-alone providers of VRS into the market. This competition will foster innovation leading to greater choice for VRS users. The Commission adopted an Order mandating that VRS providers seeking compensation from the interstate TRS fund ensure that their equipment and networks are interoperable with other providers so that users can access the provider(s) of their choice without having to maintain multiple devices, and also sought comment on how to ensure users could be contacted by callers regardless of which provider they were currently using.

- Consumer Outreach and Education – The Commission continued its efforts to provide information on the benefits of broadband on the economy, education, healthcare, commerce, government services, public safety and homeland security, as well as providing access to news, information, and entertainment. The Commission maintains and constantly updates its fact-sheets, advisories, alerts, and array of websites to ensure that consumers have access to timely information on access to broadband services. The Commission’s consumer center is the public’s direct point of contact with the agency and responds directly to inquiries and resolves informal complaints related to broadband services and providers. Working with the Consumer Advisory Committee, Commission staff continue to receive input on a broad range of broadband issues, including deployment, universal service, VoIP E911, homeland security, and disability access.
- Schools and Libraries – The Commission released the 2006 Eligible Services List for the schools and libraries universal service mechanism to provide greater transparency for schools and libraries subscribing to broadband services. The agency also adopted orders granting more than 200 appeals of decisions of the universal service fund administrator as part of its efforts to ensure that eligible schools and libraries actually 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 October of 2005, has taken enforcement action against parties convicted of serious fraud-related felonies against the schools and libraries universal service support mechanism, also known as the E-Rate program. Specifically, the Commission debarred one individual and two corporations from all activities associated with the E-Rate program, and suspended two corporations with similar convictions involving E-Rate fraud from the program (both are currently involved in debarment proceedings before the Commission). The Commission also increased the number of audits and its oversight over USF.

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

- Broadband Reporting – The Commission collected two rounds of broadband information under a revised data collection program designed to include small providers operating in rural areas. The agency published 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. The agency also provided data to the Organisation for Economic Co-operation and

Development (OECD) and the International Telecommunication Union (ITU) on U.S. broadband deployment.

Ensure harmonized regulatory treatment of competing broadband services:

- Pricing Flexibility for Advanced Services – The Commission continued its efforts to promote the availability of broadband to all Americans by granting Verizon’s request 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 several petitions for declaratory ruling regarding the intercarrier compensation obligations applicable to IP-enabled services that utilize the public switched telephone network (PSTN).
- Broadband Infrastructure Deployment – The Commission issued an order in which it defined wireline broadband Internet access service as an information service functionally integrated with a telecommunications component. In so doing, the Commission eliminated its former requirement that facilities-based providers offer the transmission component of wireline broadband Internet access service separately from their Internet access service as a stand-alone service on a common-carrier basis. The Commission’s order enables wireline broadband Internet access service providers to respond quickly to consumer demand with efficient, innovative services and to compete more vigorously with broadband services provided over other platforms. The Commission also adopted a policy statement that enumerated four guiding principles that the Commission will incorporate into its ongoing policymaking activities to foster creation, adoption, and use of Internet broadband content, applications, services, and attachments, and to ensure consumers benefit from the innovation that comes from competition. Also, by approving the merger of SBC and AT&T and the merger of Verizon and MCI, 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.
- E911 – The Commission formed a joint task force with state commissions to address enforcement of the requirement that providers of interconnected Voice over Internet Protocol (VoIP) service provide ubiquitous and reliable E911 service.

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

- Wireless Broadband Spectrum Allocation – The Commission adopted rules modifying the AWS-1 band plan to provide additional opportunities for smaller and rural wireless carriers to access this spectrum. The new band plan will increase the variety of licenses available to meet the needs of potential new entrants as well as the needs of incumbents seeking additional spectrum. The Commission also established procedures to relocate incumbent Broadband Radio Service (BRS) licensees from the 2150-2160/62 MHz band and Fixed Microwave Service (FS) licensees from the 2160-2175 MHz band to provide for AWS operations. In establishing these procedures, the Commission facilitated the

introduction of AWS in these bands, while also ensuring the continuation of BRS and FS services to the public.

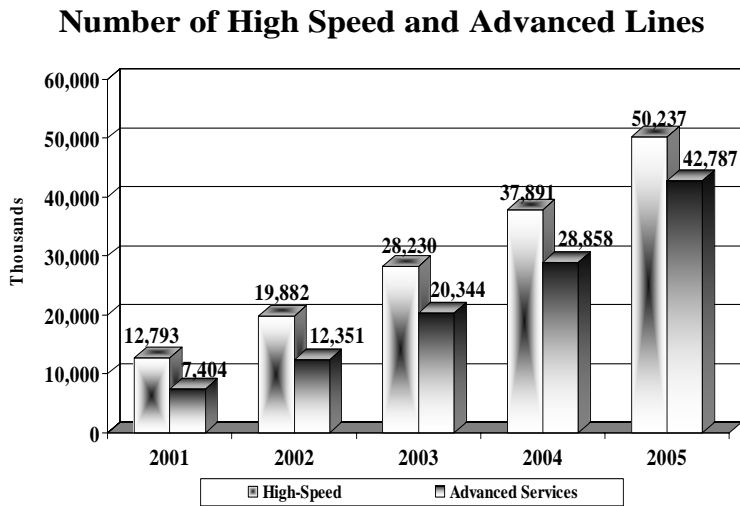
- Broadcasting Satellite Service (BSS) – The Commission initiated a rulemaking adopting licensing and service rules for 17/24 GHz BSS systems.
- International Leadership – ITU, Inter-American Telecommunication Commission (CITEL), and Asia Pacific Economic Cooperation (APEC TEL): The Commission provided technical and policy expertise to U.S. Delegations to meetings at the ITU, CITEL and the APEC TEL on U.S. regulatory policies and rules for IP-enabled services. The Commission also provided U.S. Government statistical data to the OECD and the ITU on U.S. broadband deployment. The Commission further provided technical training on Internet Governance, Broadband Deployment, Convergence, VoIP, Competition, and Transparency at the Caribbean Internet Forum in Barbados, the purpose of which was to help regulators in the Caribbean to coordinate their efforts to maximize broadband deployment.
- International Forum Participation – Participated in ITU-R Working Groups studying spectrum engineering techniques and studies related to Ultra-Wideband (UWB) and Broadband over Power Line (BPL) technologies. Discussions focused in part on ongoing studies related to UWB and BPL characteristics and techniques to measure radiation and interference. Agency staff also participated in the 6th annual Global Symposium for Regulators (GSR) of over 100 countries organized by the ITU's Development Sector, which focused on best practices for spectrum management to facilitate broadband access. Commission staff were included in the U.S. delegation to the second phase of the World Summit on the Information Society (WSIS) in Tunis, Tunisia, which was organized by the United Nations to provide an opportunity for information technology stakeholders to develop a better understanding of information technology and the impact on the international community.
- Domestic Forum Participation – The Commission participated in the bimonthly Satellite Industry Association (SIA) Working Group and the Satellite Broadcasting and Communications Association / SIA CEO Roundtables on a variety of subjects including satellite broadband. In addition, the Commission participated in the National Spectrum Managers Association's annual conference.
- 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. The Commission modified its rules to provide greater flexibility to both existing licensees and potential new entrants for BRS and EBS. This action was designed to encourage the efficient and effective use of spectrum domestically and internationally, and the growth and rapid deployment of innovative and efficient communications technologies and services. The Commission also affirmed its allocation for fixed and mobile (except aeronautical mobile) services in the 2495-2500 MHz band and adopted sharing rules with incumbents.
- Advanced Wireless Services (AWS) – Advancing efforts to make spectrum available for an array of innovative wireless services and technologies, including voice, data, video, and other wireless broadband services offered over 3G mobile networks, the Commission modified the service rules for AWS in the 1.7 MHz and 2.1 GHz bands (AWS-1). In addition, the agency adopted cost-sharing rules to identify reimbursement obligations for

AWS and Mobile Satellite Service (MSS) entrants that benefited from the relocation of BRS and Fixed Microwave Service incumbent licenses. Also, to facilitate the transition of the 1710-1755 MHz band from federal government to non-federal use, the Commission coordinated with the National Telecommunications and Information Administration (NTIA), providing guidance for AWS licensees to begin implementing service in this band while providing interference protection to incumbent federal government operations during transition. Finally, the auction of highly valuable AWS spectrum, conducted by the Commission as Auction #66, resulted in net winning bids totaling \$13.7 billion.

FY 2006 PERFORMANCE INDICATORS

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 2005,⁶ subscribers to high-speed services were present in 99% of the zip codes in the United States, up 4% from the previous year.⁷ There were 50.2 million high-speed lines in service,⁸ 42.9 million of which were assigned to residential and small business subscribers.⁹ Advanced services lines increased 15% during the second half of 2005, from 37.3 to 42.8 million lines.¹⁰



Service providers report the presence of high-speed service subscribers in all 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. Relatively large numbers of high-speed lines in service are found in the most populous states, i.e., California, New York, Florida, and Texas.¹¹

Increase access to broadband services and devices across multiple platforms

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

- ADSL high-speed lines increased during calendar year 2005 by 41%, to 19.5 million lines, while high-speed cable modem service lines increased by 20% to 25.6 million lines.¹²
- ADSL advanced services lines increased during calendar year 2005 by 179% to 15.9 million lines, while cable modem advanced service lines increased by 21% to 25.2 million lines.¹³

⁶ Data on advanced services for Internet access is collected every six months; the latest available data released from the FCC is from December 2005. The report on *High Speed Services for Internet Access: Status as of December 31, 2005*, released July 26, 2006, is available at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-266596A1.pdf.

⁷ Ibid., Chart 12, page 21.

⁸ Ibid., Table 1, page 6.

⁹ Ibid., Table 3, page 8.

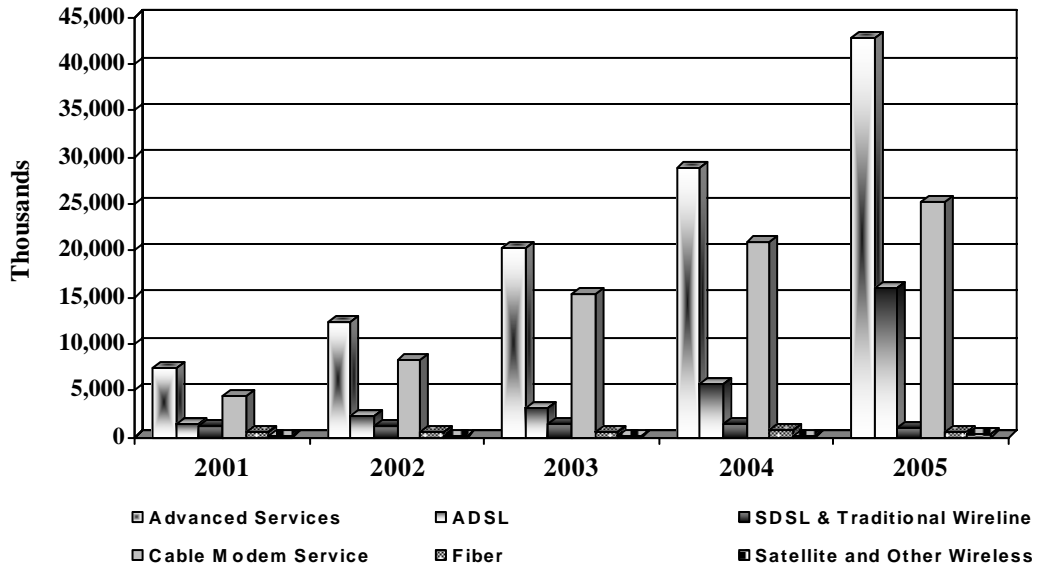
¹⁰ Ibid., Table 2, page 7. 39.3 million of these advanced services lines were assigned to residential and small business subscribers. Ibid., Table 4, page 9.

¹¹ Ibid., Table 9, page 15. The number of high-speed lines in these states were 7.3 million, 3.7 million, 3.5 million, and 3.5 million, respectively.

¹² Ibid., Table 1, page 6.

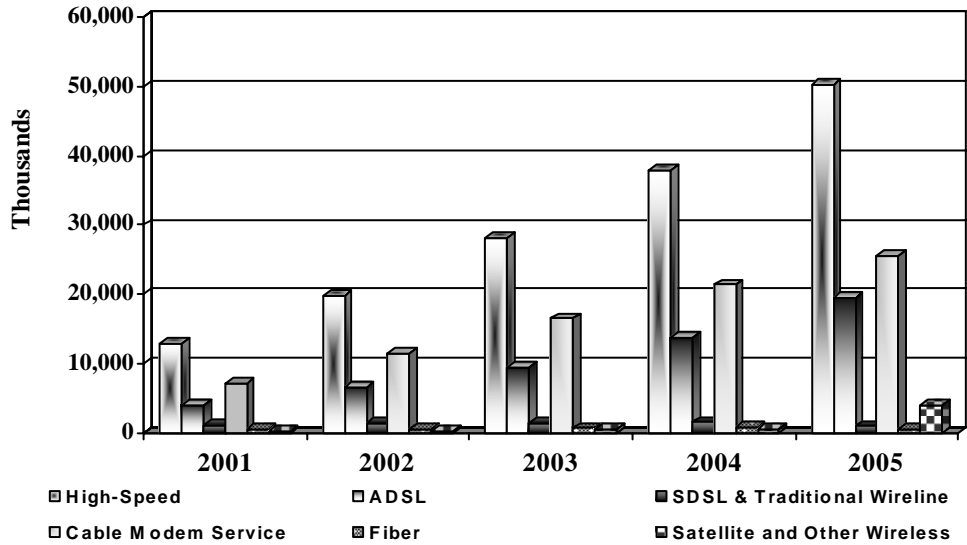
¹³ Ibid., Table 2, page 7.

Advanced Lines Across Multiple Platforms



Significant progress is also being made in the deployment of mobile broadband technologies. Several mobile wireless carriers are deploying high-speed mobile Internet access services for cell phones, PDAs, laptops, and other wireless devices using CDMA, EV-DO, and WCDMA technologies.

High Speed Lines Across Various Platforms



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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 2006 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.
- 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 2006 PERFORMANCE HIGHLIGHTS

Promote access to telecommunications services for all Americans:

- Improvements to Universal Service Fund - 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 several actions to improve the administration and distribution of the federal Universal Service Fund (USF). Among other actions, the Commission:
 - Preserved and advanced the USF by broadening the contribution base in a competitively neutral manner;
 - Improved the financial management of USF;
 - Adopted an Order making interim modifications to the existing approach for assessing contributions to the federal USF. The interim modifications are designed to ensure the stability and sufficiency of the USF while furthering the principle of competitive neutrality;

- Found that certain prepaid calling card service providers are telecommunications service providers that are subject to intercarrier access charges and that must contribute to the federal USF, thus promoting a competitively neutral funding mechanism for universal service;
 - Issued a Notice of Proposed Rulemaking, seeking comment on the non-rural high-cost support mechanism, to ensure that consumers in high cost areas have access to telecommunications and information services at reasonably comparable rates, and on whether to create a non-rural, insular support mechanism;
 - Adopted an Order extending, on an interim basis, the high-cost universal service support rules adopted in the *Rural Task Force Order* until the Commission concludes its rural review proceeding and adopts changes, if any, to those rules as a result of that proceeding;
 - Adopted an Order clarifying that carriers may qualify for safety net additive support in more than one year, thereby helping to eliminate entry barriers for rural carriers by providing additional universal service support to those carriers that have made significant investment in rural infrastructure;
 - Considered comments received in response to a Notice of Proposed Rulemaking on the Comprehensive Review of Universal Service Fund management; and
 - Took a total of 21 enforcement actions against carriers that failed to comply fully with the USF rules. These actions are broken down as follows:
 - three debarments from USF E-rate program due to criminal convictions;
 - two suspensions from USF E-rate program (these suspensions are currently in debarment proceedings);
 - nine Notices of Apparent Liability (NALs) totaling \$2,992,535;
 - two forfeiture orders totaling \$735,031; and
 - four consent decrees totaling \$785,000.
- Increased Awareness of Available Programs and Services for Low Income Consumers - The Commission entered into a \$75,000 Consent Decree with a carrier for failure to publicize the availability of Lifeline and Link-Up universal service discounts in a manner reasonably designed to reach low-income residents on tribal lands.
 - Hearing Aid Compatibility – The Commission evaluated reports submitted by manufacturers and carriers regarding their efforts toward compliance with the hearing aid compatibility requirements. The Commission also granted limited temporary waivers of the Commission’s hearing aid compatibility requirements for certain digital wireless telephones in order to facilitate compliance by certain manufacturers and carriers with these requirements as expeditiously as possible.
 - Telecommunications Relay Service – The Commission took a number of actions to enhance the TRS, including:
 - The Commission adopted a Further Notice of Proposed Rulemaking (FNPRM) that seeks comment on a broad range of issues concerning the compensation of providers from the Interstate TRS Fund. This FNPRM seeks comment on alternative cost recovery methodologies for interstate traditional TRS, speech-to-speech relay, and IP Relay including Hamilton Relay’s proposed “MARS” plan and whether traditional TRS, STS, and IP Relay should be compensated at the same rate. This FNPRM seeks further comment on the appropriate cost recovery methodology for VRS and the length of time the VRS rate should be in effect. In addition, this FNRPM seeks comment on issues relating to the “reasonable” costs

compensable under the present cost recovery methodology, including whether, and to what extent, marketing and outreach expenses, overhead costs, and executive compensation are compensable from the TRS Fund. This FNPRM also seeks comments on ways to improve the management and administration of the Fund, including adopting measures for assessing the performance and efficiency of the Fund and to deter waste, fraud, and abuse;

- The Commission released a Public Notice granting GoAmerica's application for certification as a provider of IP Relay and VRS eligible for compensation from the TRS Fund pursuant to a December 12, 2005 Order providing for federal certification of carriers to offer IP Relay or VRS. The Commission conditions this grant of certification upon compliance with the VRS Interoperability Declaratory Ruling released on May 9, 2006;
- The Commission released a Public Notice granting Healinc Telecom, LLC's application for certification as a provider of VRS eligible for compensation from the TRS Fund pursuant to a December 12, 2005 Order providing for federal certification of carriers to offer IP Relay or VRS. The Commission conditions this grant of certification upon compliance with the VRS Interoperability Declaratory Ruling released on May 9, 2006;
- The Commission released a Declaratory Ruling denying the petition for Declaratory Ruling filed by Telco Group, Inc. (Telco). Telco asked the Commission to either exclude international revenues from the end-user revenue base used to calculate payments due to the Interstate TRS Fund or to grant Telco a waiver to do so. The Commission concluded that the inclusion of international end-user revenues in calculating carriers' obligations to the Interstate TRS Fund is appropriate;
- The Commission released a Declaratory Ruling and FNPRM concluding that a provider will not be eligible for, and cannot receive, compensation from the fund if the provider restricts the use of VRS or VRS-related equipment to a particular provider. In its FNPRM, the Commission seeks comment on whether and how an open global database of proxy numbers may be created to facilitate a hearing person's call to a VRS user, through any VRS provider, without having to first ascertain the VRS user's IP address. The Commission also seeks comment on whether it should adopt specific Internet protocols or standards to ensure that all VRS providers can receive calls from, and make calls to, any VRS consumer, and all VRS consumers can make calls through any VRS provider;
- The Commission released an FNPRM seeking comment on ways to curtail the misuse of IP Relay and VRS services. Specifically, this FNPRM seeks comment on how the TRS rules might be amended to: (1) permit providers to identify and terminate IP Relay calls involving fraudulent credit card purchases, and (2) prevent the use of VRS as a substitute for hiring an in-person interpreter or a VRI (video remote interpreting) service;
- The Commission released a Public Notice granting SNAP Telecommunications, Inc.'s application for certification as a provider of VRS eligible for compensation from the TRS Fund pursuant to a December 12, 2005 Order providing for federal certification of carriers to offer IP Relay or VRS;
- The Commission released an Order adopting a Commission certification procedure for entities seeking to offer VRS and/or IP Relay. Once certified, they would be eligible for compensation from the Interstate TRS Fund; and
- The Commission initiated a rulemaking seeking comment on how providers of the two Internet-based TRS services, VRS and IP Relay, can handle emergency calls and route them to the appropriate Public Safety Answering Points (PSAP). In

December 2005, given that this rulemaking is pending, the Commission extended the waiver of the emergency call handling requirement for VRS until January 1, 2007 (for IP Relay, it is waived until January 1, 2008).

- Accessibility to international telecommunications services by persons with disabilities – Commission staff participated in the meetings of the CITELE Assembly and the Permanent Consultative Committee I for Telecommunication Standardization (PCCI). Commission staff served as coordinator of the U.S. positions regarding the International Telecommunications Regulations (ITRs) Broadband over Power Lines.

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 – During 2005, the consumer price index for interstate toll service fell 3.0% and the consumer price index for intrastate toll service fell 0.4%, while the overall consumer price index rose 3.4%. The average price per wireless minute of use per month for mobile telephone service, including both individual and business users, has fallen from 9 cents per minute in 2004 to 7 cents per minute in 2005; and
 - International - The Commission reported in March 2006 that the average international calling rate charged to U.S. consumers fell from 20 cents per minute in 2003 to 14 cents per minute in 2004. This continues a trend of falling rates since 1999 when the average international calling rate was 51 cents per minute. In order to assure that this trend continues, the Commission has been conducting a study of the effect of foreign mobile termination rates on U.S. consumers based upon the record established from the Commission's 2004 Notice of Inquiry into this subject.
- Broadband Over Power Lines (BPL) – The Commission affirmed its Part 15 rules for Access BPL systems while maintaining safeguards against harmful interference to existing radio services. The changes will further the development and growth of BPL devices and will give consumers an additional choice in broadband providers.
- Availability of Additional Spectrum – The Commission made significant amounts of spectrum available for the provision of services. Commission action in this area included the following:
 - The Commission adopted rules for the auctioning of and then auctioned 90 MHz of spectrum for advanced wireless services, including wireless broadband, in the 1710-1755 and 2110-2155 MHz band for new wireless services and new competitive entrants;
 - The Commission issued an order reallocating spectrum in the 2 GHz Mobile Satellite Service Frequency Band, making it available to be used by other satellite providers to offer expanded broadband services; and
 - The Commission evaluated compliance with 14 space station milestones to measure the progress satellite licensees had made with the service roll-out plans upon which their licenses had been conditioned. Based on its evaluation, the Commission revoked five licenses and an additional five entities surrendered their licenses during this time. As a result, more spectrum was made available to new applicants.

- Local Number Portability – The Commission continued implementation and enforcement of local number portability requirements, which have enabled millions of consumers to “port” a phone number when switching carriers at the same location, and which have stimulated competition among carriers based on price, service quality, and innovative service offerings.
- Intercarrier Compensation – The agency promoted access to telecommunications services for all Americans by seeking comment on proposals to reform the system of payments between carriers for the origination and/or termination of communications traffic.
- Local Competition – For the first time, the Commission granted forbearance pursuant to section 10 of the Act from the unbundling requirements of section 251(c) in a market in which a facilities-based competitor had taken significant market share from the incumbent local exchange carrier.
- Competitive Bidding Rules – The Commission revised the Commission’s competitive bidding rules to implement the Commercial Spectrum Enhancement Act, which provides for payment of government station relocation costs out of auction proceeds, and to make other improvements to assure that the Commission’s auctions keep pace with new developments. The Commission also modified its rules for determining the eligibility of applicants for designated entity benefits in the context of competitive bidding in order to ensure that, as intended by Congress, every recipient of designated entity benefits is an entity that uses its licenses to directly provide facilities-based telecommunications services for the benefit of the public.
- Roaming – The Commission initiated a rulemaking proceeding to consider whether wireless carriers are engaging in anticompetitive conduct with respect to the availability of mobile telephone roaming services and whether to adopt rules governing such conduct.
- Increased Competitive Choices for Multichannel Video Programming – The agency initiated a rulemaking seeking comment on implementation of the directive in section 621(a)(1) of the Act that local franchising authorities not unreasonably refuse to award competitive franchises, and whether the franchising process unreasonably impedes the achievement of the interrelated federal goals of enhanced cable competition and accelerated broadband deployment and, if so, how the Commission should act to address that problem. More than 4,000 comments and replies have been filed.
- Transfer of Control Requests – Commission action on requests for transfer of control of authorizations included:
 - Wireless Licenses – The Commission reviewed hundreds of applications, involving thousands of wireless 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 129 requests to transfer control of domestic section 214 authorizations, of which 100% were processed within our speed of disposal goals;
 - International Section 214 Authorizations and Satellite Licenses - The Commission granted 225 routine transfers of control and assignments of international section

214 authorizations, of which 97% were processed within our speed of disposal goals. In addition, the Commission processed 17 transfers of control and assignments of submarine cable landing authorization. The Commission processed 92.5% of satellite and earth station transfer of control and/or assignment applications within 180 days. The Commission completed three joint licensing arrangements or transfers of U.S.-licensed satellites (EchoStar license to Mexico; DirecTV license to Canada; SES license to Gibraltar), all within 270 days; and

- Adelphia Communications Corporation, Time Warner Inc. and Comcast Corporation Transaction – Following a full public interest review, the Commission approved license transfers related to a series of transactions between the nation’s seventh, third, and largest multichannel video programming distributors. To address potential public interest harms identified in the analysis of the transaction, approval was subject to certain remedial conditions.
- International Facilities Authorization – The Commission took steps to facilitate the authorization of new international telecommunications service, including:
 - During the period October 1, 2005 to July 28, 2006, the Commission acted upon 221 section 214 applications for authorization of new providers of international services, of which the Commission processed 96% within its speed of disposal goals. The Commission processed earth station applications within an average of 33.73 days by the Commission, and space station applications processed within an average of 268 days by the Commission; and
 - The Commission initiated a broad review of its rules applicable to authorization of international facilities with the objective of further streamlining the Commission’s filing process and clarifying and simplifying its rules and policies in connection with international telecommunications.
- 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.
- Service Rules for 17/24 GHz Broadcasting Satellite Service Systems - The Commission initiated a rulemaking regarding service rules for 17/24 GHz Broadcasting Satellite Service systems adopted in June 2006. The Notice seeks comment on licensing procedures and service rules for BSS satellites operating in these bands.
- Licensing Rules for Direct Broadcasting Satellite Service Systems - In light of the D.C. Circuit ruling in *Northpoint v. FCC*, the Commission initiated a rulemaking adopting licensing rules for Direct Broadcasting Satellite (DBS) Service systems at orbit locations related to the Region 2 Band Plan.
- Mexico’s Calling Party Pays System - Commission staff provided technical assistance to the State Department and the United States Trade Representative in discussions about Mexico’s calling party pays system for international and domestic long distance calls to mobile phones.
- 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 in 2005 and concludes that the market continues to behave in an intensely competitive manner that significantly benefits the American consumer.

- Twelfth Report to Congress on Multichannel Video Programming - The agency completed its Twelfth Annual Report to Congress on competition in the video marketplace pursuant to section 628(g) of the Act. The report evaluates the status of competition in the video marketplace, changes in the marketplace since the 2005 report, prospects for new entrants, factors that have facilitated or impeded competition, and the effect these factors are having on consumers.
- Satellite Competition Reporting - During the fiscal year, Commission staff researched and analyzed the commercial communications satellite industry to produce the Commission's first annual satellite competition report, as requested by Congress.
- ORBIT Act Report to Congress - On June 15, 2006, the Commission issued the seventh 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 many decisions and activities undertaken by the Commission to implement the ORBIT Act in the past twelve months.
- U.S. International Services Rulemaking - Commission staff continues to finalize 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 and to ensure the usefulness of the data collected by the Commission. The information received by the Commission is used to evaluate the competitive environment for international communications and for other purposes.
- 2004 International Telecommunications Data Report - On March 14, 2006, the Commission released the annual report entitled *2004 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, *inter alia*, the following statistical findings:
 - Facilities-based and facilities-resale traffic increased 32.5% from 48.0 billion minutes in 2003 to 63.6 billion minutes in 2004;
 - U.S. billed revenues for international telephone, private line, and other miscellaneous services decreased 4% from 2003;
 - U.S. carriers' net settlement payments (the amount they pay foreign carriers to terminate traffic overseas) increased while retained international revenues (revenues after settlement payments are made) decreased; and
 - Resale traffic grew from 36.1 billion minutes in 2003 to 38.5 billion minutes in 2004. Billed revenue for resale services decreased from \$5.8 billion in 2003 to \$5.2 billion in 2004.

Promote pro-competitive and universal access policies worldwide:

- The Commission engaged extensively with foreign regulators from all over the globe in order to foster competition in foreign markets and promote universal service policies. The Commission's activities in this area include the following:
 - The Commission coordinated and administered the International Visitors Program, hosting 175 meetings for over 445 visitors from 77 different countries;
 - Throughout Fiscal Year 2006, the Commission provided staff experts to provide presentations at the U.S. Telecommunications Training Institute (USTTI). Specifically, the Bureau provided experts for the following USTTI courses: Radio Spectrum Monitoring Techniques and Procedures (June 2006); Spectrum Management in the Civil Sector (April 2006); Radio Spectrum Monitoring and Measuring (April 2006); Regulatory and Privatization Issues in Telecommunications (July 2006), as well as the planning and coordination of all Commission-sponsored USTTI activities. Participants representing 39 developing countries have been trained (as of July 28, 2006): Afghanistan, Albania, Antigua, Argentina, Azerbaijan, Barbados, Belize, Bhutan, Brazil, Cameroon, Colombia, Costa Rica, Egypt, Grenada, Honduras, Iraq, Jamaica, Jordan, Kenya, Laos, Lesotho, Malawi, Moldova, Nepal, Niger, Nigeria, Oman, Papua New Guinea, Paraguay, Philippines, Russia, St. Lucia, St. Vincent and the Grenadines, Saudi Arabia, Senegal, Uganda, Ukraine, Vietnam, and Zimbabwe;
 - The Commission has participated, along with members of the U.S. State Department and National Telecommunications and Information Administration (NTIA), in the International Telecommunications Satellite Organization (ITSO) 30th (Extraordinary) Assembly of Parties Meeting in Paris, France, from July 16 - July 22, 2006. Issues related to competition in the global satellite marketplace, as well as satellite connectivity to underdeveloped regions, were discussed during the meeting;
 - 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 (PCCI). Commission staff served as coordinator of the U.S. position regarding many issues including International Telecommunications Regulations (ITRs) and Broadband over Power Lines;
 - In June 2006, 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, the U.S. expert agency, developed the arguments necessary to maintain the market-driven approach to Internet traffic flows;
 - Commission staff participated in the March 2006 meeting of the ITU World Telecommunication Development Conference (WTDC). The WTDC is held every four years to review the progress made in telecommunications in developing countries, to establish priorities and strategies for the development of

information and communication technologies, and to promote international cooperation and partnerships to improve infrastructure and strengthen institutions in developing countries;

- In February 2006, the Commission led a two-day workshop in Dar es Salaam, Tanzania, for delegates from the Telecommunications Regulators' Association of Southern Africa (TRASA). The workshop focused on best practices on interconnection, pricing, competitive access and regulatory principles that would aid in promoting telecom investments in the Southern Africa Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) regions;
- Commission staff contributed to an OECD paper on rethinking universal service for a next generation environment, released in April 2006, and to an OECD paper on multiple play: pricing and policy trends; and
- In January 2006, Commission staff participated in a World Bank project to revise its Information and Communication Technologies Regulation Toolkit for developing country regulators. The "Toolkit" includes instructive material relating to the following key areas: (1) Licensing; (2) Managing Radio Spectrum; (3) Legal and Institutional Aspects of Regulation; (4) New Technologies and Their Impact on Regulation; and (5) Regulating Competition, Prices and Interconnection.

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

- Customer Privacy – The Commission initiated a rulemaking to examine whether additional security measures are needed to prevent the unauthorized disclosure of sensitive customer information held by telecommunications companies. The Commission sought comment on a variety of issues related to customer privacy, including what security measures carriers currently have in place, what inadequacies exist in those measures, and what kind of security measures may be warranted to better protect consumers' privacy.
- VoIP Outreach Initiatives -
 - The Commission and the National Association of Regulatory Utility Commissioners (NARUC) collaboratively established a joint Federal/State Task Force on VoIP/E911 to encourage the effective implementation of Commission VoIP directives through the sharing of best practices throughout the industry and to develop consumer education materials, including a web page dedicated to this effort at: www.voip911.gov.
 - Ongoing outreach efforts included participation in the Association of Public Safety Communications Officials (APCO) National Convention to raise awareness of the work of the VoIP/E911 task force.
- DTV Outreach Initiative - The Commission continued its multi-year, multi-phased consumer education and outreach program, in partnership with the Consumer Electronics Association (CEA), 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 continued to update and maintain a dedicated

DTV Web site, www.dtv.gov, and publications, as regulatory and marketplace circumstances warranted. The agency also staffed exhibits and made presentations at the annual NAACP convention, National Consumer Protection Week, Public Service Recognition Week on the National Mall, and the Youth Technology Summit in Oxon Hill, MD, as well as across the country at the National Council of La Raza in Anaheim, CA, the League of United Latin American Citizens in Milwaukee, WI, and the American Library Association in New Orleans.

- Facsimile Advertising Rules – The Commission adopted rules to implement the Junk Fax Prevention Act of 2005. Specifically, the rules allow fax advertisements to be sent to parties with whom the sender has an established business relationship, require the sender to provide clear and conspicuous notice and contact information on the first page of a fax that allows recipients to “opt-out” of future fax transmissions from the sender, and require senders to honor opt-out requests within 30 days. The Commission also removed section 64.1200(a)(3)(i) of the rules, which required a sender to obtain a signed, written statement indicating the recipient’s consent to receive fax advertisements from the sender.

Enforce the Commission’s rules for the benefit of consumers:

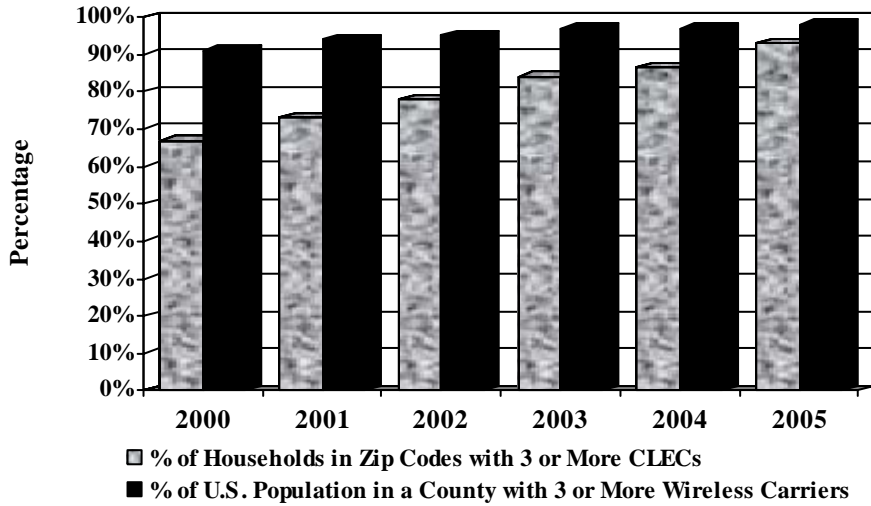
- Customer Privacy – The Commission enforced rules covering customer proprietary network information (CPNI) by issuing a \$97,500 Notice of Apparent Liability (NAL) against a data broker that failed to cooperate fully with a Commission investigation. Moreover, it issued four citations to data brokers for similar violations. The Commission also entered into a \$550,000 consent decree with a carrier that violated the CPNI rules, and issued a \$100,000 NAL against another carrier for the same offense. All of these actions are part of the Commission’s comprehensive investigation into whether telecommunications carriers are meeting their obligations under the Act to safeguard their subscriber phone records.
- Junk Fax Prevention Act Enforcement – The Commission issued 45 citations against violators of the Junk Fax Prevention Act. In April of 2006, the Enforcement and Consumer and Governmental Affairs Bureaus created a junk fax task force that has met weekly to improve the Commission complaint intake efficiency (including a redesign of the consumer complaint form), and is in the midst of upgrading its computing platform to improve process time.
- Do Not Call List Enforcement – The Commission entered into a \$100,000 consent decree with a wireless carrier for its violations of the National Do Not Call List. Also in Fiscal Year 2006, the Commission issued three citations, one forfeiture order, and one consent decree against violators that called a residential telephone line and/or cellular telephone service with prerecorded unsolicited advertisement.
- Participation in International Telecommunication Union Development Sector Study Groups - In August/September 2006, 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.

FY 2006 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 2005. 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 2005.

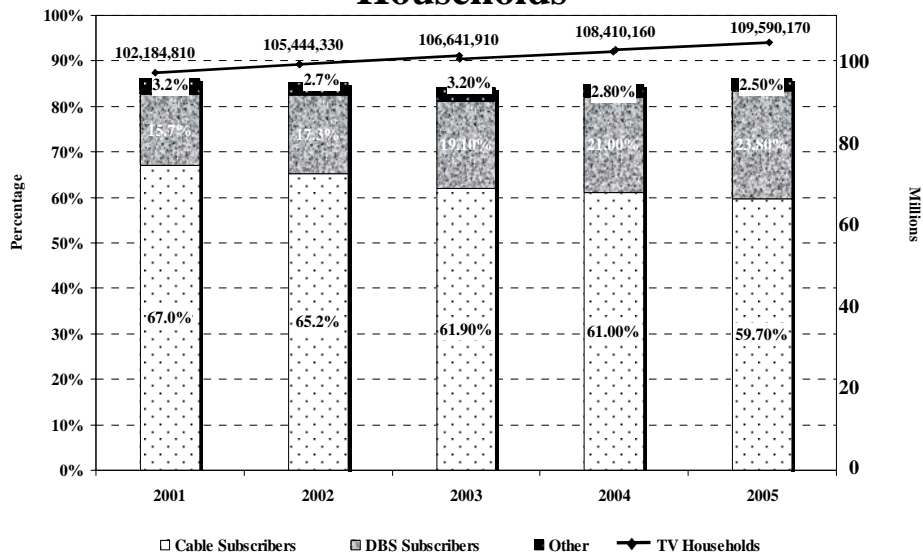
Percentage of Population with Three or More Providers



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

As of June 2005, 86% of the 109.6 million U.S. total television households subscribed to a multichannel video programming distribution service; 59.7% of all TV households were cable subscribers; 23.8% were direct broadcast satellite subscribers; and 2.5% subscribed to other MVPD services. Non-cable MVPD subscribers grew from 26.2 million households in June 2004 to 28.8 million households in June 2005, an increase of 10%. There are 15.36 million U.S. TV households that do not

MVPD Subscribers as a Percentage of TV Households



subscribe to an MVPD service and thus rely solely on over-the-air broadcast television for their video programming, representing 14 percent of all U.S. TV households.¹⁴ 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.¹⁵

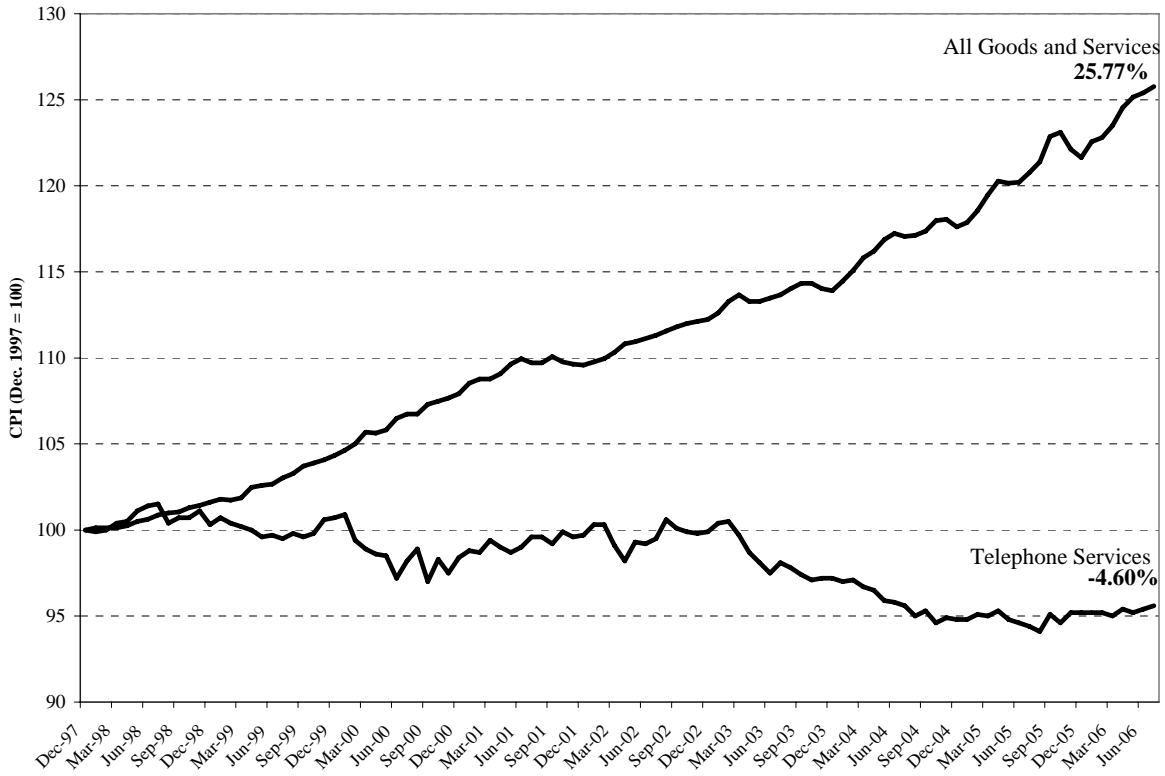
Lower relative price for wireless and wireline services

The consumer price for telephone services has declined over the last eight years when compared to the price of other goods and services. The chart below uses data obtained from the Bureau of Labor Statistics to compare the Consumer Price Index (CPI) for Telephone Services with the CPI for all goods and services, using 1997 price levels as the base (equal to 100). The Telephone Services included in this index include Local Telephone Service, Long Distance Charges, Interstate Toll Service, Intrastate Toll Service, and Wireless Telephone Services. In contrast to a 26% increase in the CPI for all goods and services (from 100.2 to 125.8), the Telephone service price index has declined by 5% (from 100.0 to 95.4) over the past eight years (from the beginning of 1998 to June 2006).

¹⁴ “Twelfth Annual Report on the Status of Competition in the Market for the Delivery of Video Programming,” can be found at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-06-11A1.pdf, Table B-1, page 115.

¹⁵ *Id.* at ¶ 98.

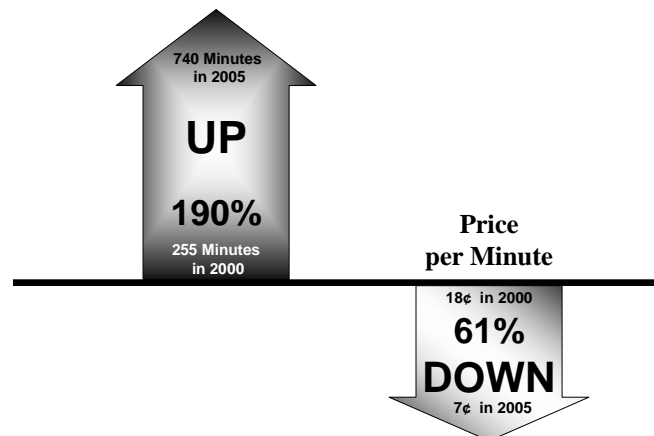
Consumer Price Indices



Consumer Prices for Telephone Services Continue to Fall

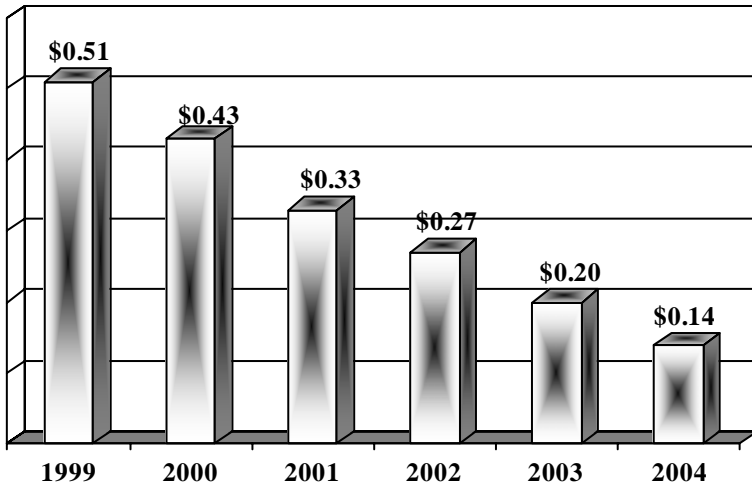
The consumer price for telephone services has declined over the last six years. The average price of wireless telephone calls has fallen over this period as well. As illustrated by the accompanying chart, the average price per wireless minutes of use per month for mobile telephone service, including both individual and business users, has fallen over the past five years, down to seven cents per minute in 2005.

AVERAGE PRICE PER WIRELESS MINUTES OF USE PER MONTH 2000 TO 2005



Decrease in the price for international calls

Price Per Minute for An International Call



The average international calling rate to U.S. consumers fell from 51¢ per minute in 1999 to 14¢ per minute in 2004.

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 2006 PERFORMANCE GOALS

- Ensure that the Nation's spectrum is used efficiently and effectively.
- Advocate U.S. spectrum interests in the international arena.

FY 2006 PERFORMANCE HIGHLIGHTS

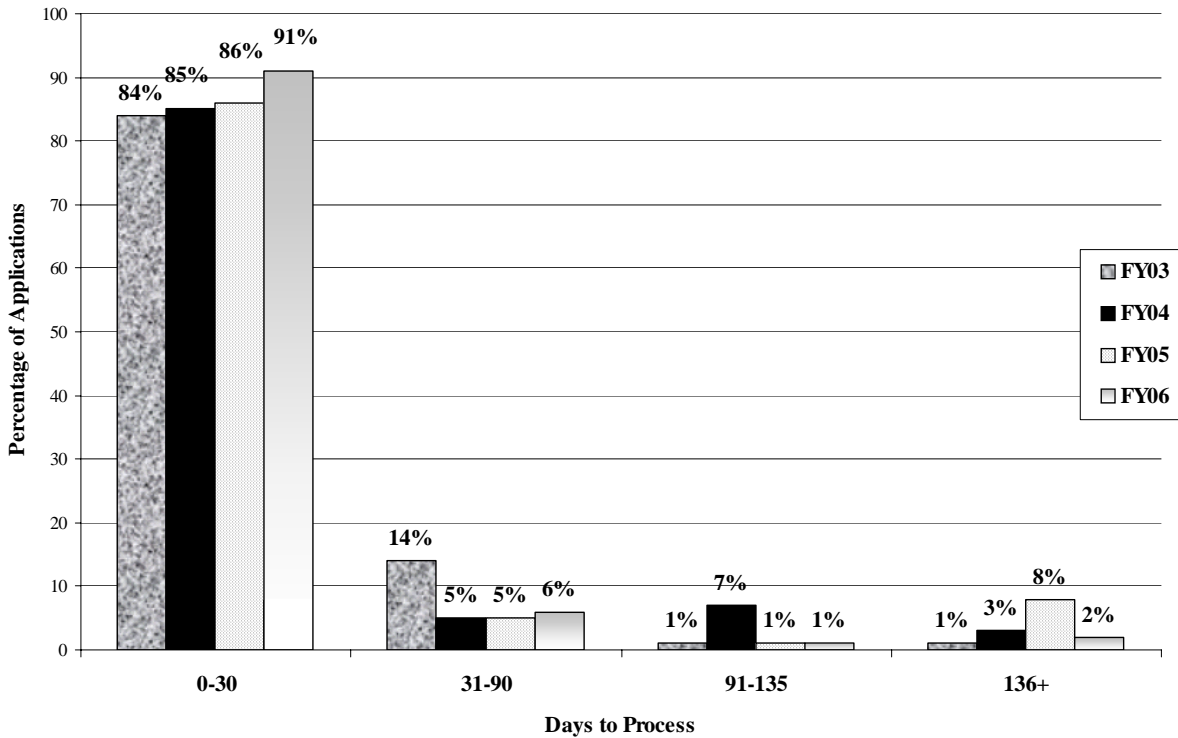
Ensure that the Nation's spectrum is used efficiently and effectively:

- Spectrum for Advanced Wireless Services – In August 2006, the Commission initiated an auction of 90 megahertz of AWS spectrum in the 1710-1755 and 2110-2155 MHz bands (Auction 66) -- the largest block of spectrum below 3 GHz that the Commission has ever made available in a single auction. This spectrum will be used to provide consumers with a variety of new high speed data, video, and voice services.
- Spectrum Clearing and Relocation Procedures – To make the 90 megahertz of AWS spectrum available for advanced services, the Commission provided for the relocation of incumbent spectrum users currently occupying the bands.
 - Federal Relocation in the 1710-1755 MHz band – The Commission, working with NTIA, issued coordination guidelines to enable AWS licensees to initiate service during the transition from federal to commercial use while protecting federal incumbents from harmful interference; and
 - Spectrum Clearing in 2.1 GHz AWS and MSS Bands – The Commission established procedures for relocation of incumbent users in the 2.1 GHz AWS and Mobile Satellite Service (MSS) bands.
- President's Spectrum Initiative – In response to a recommendation in the President's Spectrum Management Initiative, the Commission, in concert with NTIA, sought public comment on creating a Spectrum Test-Bed in which both federal and non-federal spectrum users could test innovative methods of spectrum sharing.

- Commercial Spectrum Enhancement Act (CSEA) – The Commission adopted rules implementing the CSEA, which provides that auction proceeds will be placed in a trust fund to pay the relocation costs of federal incumbents operating in bands that have been transferred from the federal government. This provision has been applied in Auction 66.
- Band Plan Transition Procedures in the 2.5 GHz Band – In April 2006, the Commission modified procedures for transition to the new 2.5 GHz band plan to accelerate development of new wireless broadband services by Broadband Radio and Educational Broadband licensees. This action will enable this spectrum band to fulfill its potential as a home for innovative broadband and educational services.
- New and Updated Equipment Certification Procedures – The Commission continued to enhance its equipment certification procedures to encourage the development of new and advanced technologies that maximize the use of spectrum:
 - The Commission released test and review procedures for wireless devices to demonstrate compliance with Hearing Aid Compatibility rules;
 - The Commission worked with NTIA and industry to standardize test procedures for unlicensed Wi-Fi and other devices using Dynamic Frequency Selection in the 5 GHz band; and
 - The Commission issued test procedures for devices using 3G technologies, including procedures to ensure compliance with radiofrequency exposure rules.
- More Robust Mobile Satellite Services – The Commission promoted more efficient use of domestic and international satellite spectrum through several initiatives designed to make the delivery of advanced mobile satellite voice and data services to first responders, disaster areas, and rural and remote areas more robust. The Commission authorized a number of providers to construct advanced ancillary terrestrial facilities reusing satellite spectrum to bolster service in areas where satellite signals may be blocked, and redistributed returned spectrum to licensees endeavoring to provide these advanced services.
- New Spectrum For Satellite Television – The Commission instituted an initiative to deploy new broadcast satellites using previously unavailable spectrum in the 17/24 GHz bands. The Commission also proposed a novel plan to allow satellite television companies to provide service from satellites using previously unassigned channels in the direct broadcast satellite band and from orbital locations not assigned to the U.S. by the ITU.
- Completion of the DTV Channel Election Process – As part of the DTV transition, the Commission completed a multi-stage channel election process for DTV channels. This is a key step in the transition that will help identify spectrum available for future DTV licensing and enable the delivery of digital and high definition television to all Americans.
- During FY 2006, the Commission conducted the following licensing and equipment authorization activities:
 - Processed approximately 520,000 applications and notifications relating to wireless services, including initial license applications, renewals, transfers and assignments, modifications, spectrum leases, and construction notifications. Approximately 97 percent of these applications were processed in 90 days or less, as compared to 91 percent in the prior fiscal year, and over 91 percent were processed in 30 days or less, as compared to 86 percent in the prior fiscal year. [See Wireless Applications chart];

- Granted over 1,000 experimental licenses and STAs, the vast majority of which were processed in 90 days or less. Coordinated 1,729 frequency assignments with NTIA;
- Granted 5,839 new equipment authorizations;
- Granted 1,238 earth station applications in an average of 33.73 days. Processed 147 space station applications in an average of 268 days; and
- Disposed of more than 12,600 applications for all broadcast services and licensing activity types. Approximately 92 percent of these applications were disposed of within the various “speed of disposal” goals established for these categories.

Wireless Applications - Processing Time



- The Commission held five spectrum auctions during FY 2006:

Auc#	Service	Auction Open-Close Date	# of Licenses /CPs in Auction	# of Licenses /CPs Won in Auction	# of Winning Bidders	# of Small Business /New Entrant ¹⁶ Winning Bidders	# of Licenses Won By Small Businesses/New Entrants	Net Winning Bids
63	MVDDS	Dec 7, 2005	22	22	3	2	21	\$133,160
62	FM Broadcast	Jan 12-31, 2006	171	163	96	54	90	\$54,259,600
64	Full Power TV	Mar 15-20, 2006	11	10	8	4	4	\$23,367,850
65	800 MHz Air-Ground	May 10-June 2, 2006	2	2	2	0	0	\$38,339,000
66	AWS	Aug 9 - Sept 18, 2006	1122	1087	104	57	215	\$13,700,267,150

- 5 GHz Unlicensed Band -- The Commission clarified the rules for operation of unlicensed Wi-Fi and other devices in the 5 GHz band, including procedures developed in co-operation with NTIA, the Department of Defense, and industry that will allow these devices to share the spectrum with federal government radar systems.
- Distributed Transmission Systems for DTV broadcasters -- The Commission proposed new rules and policies for distributed transmission systems (DTS), which transmit digital television signals from a network of synchronized transmitter sites rather than a single centrally located transmitter. DTS has the potential to deliver digital signals to areas that would otherwise be blocked by terrain, to facilitate uniformity of signal quality, and to reduce the potential for interference.
- Unauthorized Radio Devices – The Commission investigated complaints about unauthorized and/or technically non-compliant radio frequency devices. For example, in response to complaints from industry and other federal government agencies, the Commission investigated the marketing and/or importation of certain Global Positioning Satellite (GPS) devices for potential interference with federal government navigation systems, digital audio music devices, position locator radio beacons, and personal emergency response equipment. The Commission ultimately proposed a \$75,000 forfeiture for the marketing of four models of unauthorized GPS signal re-radiator kits. The Commission also issued a \$1 million forfeiture for the marketing of at least 50 models of unauthorized digital audio devices, such as mixers, amplifiers, and digital

¹⁶ New entrants are an identified category in broadcast auctions

effects processors. The chart below shows spectrum-related investigations and assessments in FY 2006.

Forfeiture Actions (FY 2006)	Forfeitures Assessed (FY 2006)	On-going Investigations at Start of FY 2006	Investigations Opened in FY 2006	Investigations Closed (New or Pending) in FY 2006	On-going Investigations at End of FY 2006
125	\$13,086,500	3,296	2,363	4,667	992

- Monitoring Compliance with Equipment Certification Requirements – The Commission monitored ongoing compliance with its equipment certification program, auditing approximately 1200 grants issued by Telecommunication Certification Bodies for technical accuracy and compliance with the rules. In addition, the Commission investigated 50 manufactured devices through its post-grant sampling and enforcement programs, which included laboratory testing of the devices.
- Harmful Interference – The Commission investigated 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.
- Public Safety Enforcement – The Commission continued to take aggressive action against spectrum service providers that violate the public safety protection rules. For example, the Commission took numerous enforcement actions in areas such as tower painting, lighting, and fencing requirements; RF emission limits; enhanced 911 (E911) requirements; and unauthorized operation of radiofrequency signals. Among other actions, the Commission issued a \$750,000 forfeiture for violations of the Commission’s E911 rules.

Advocate US spectrum interests in the international arena:

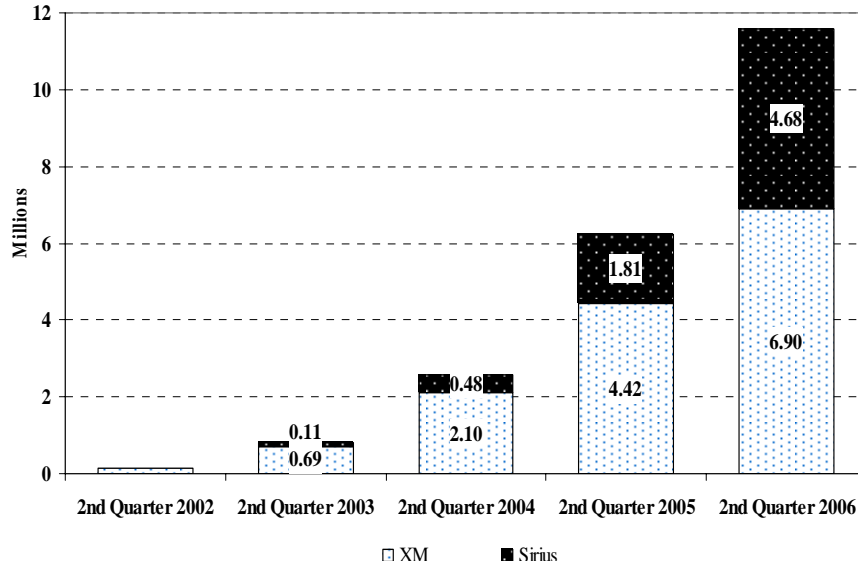
- Preparation for the 2007 World Radiocommunication Conference (WRC-07) – The Commission made significant progress in securing international spectrum allocations for new services and protecting incumbent services from interference. With the Commission’s assistance, WRC-07 Advisory Committee, whose objective is to provide advice and recommendations in preparation for the conference, approved preliminary views and draft proposals that the Commission, the State Department, and other U.S. government agencies will use to secure international spectrum allocations and protect U.S. service providers at WRC-07.
- 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 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, terrestrial, such as IMT-2000, and unlicensed devices (e.g., Wi-Fi, Ultrawideband).

- Spectrum Usage Negotiations With Mexico – The Commission participated in the eighth High Level Consultative Commission with Mexico in July 2006. The Commission also negotiated with Mexico towards securing agreements to permit U.S. operators to provide 700 MHz UHF-TV and Low Power TV in border areas, and to implement recent U.S. enhancements to the 800 MHz Air-to-Ground service.
- US-Canada Spectrum Agreements – The Commission made significant progress in securing new spectrum agreements with Canada. The U.S. signed an interim agreement with Canada to permit public safety use of reallocated channels 63 and 68. Negotiations continue on the use of channels 64 and 69 and towards US-Canada agreements to facilitate implementation of DTV and the 800 MHz transition.

FY 2006 PERFORMANCE INDICATORS

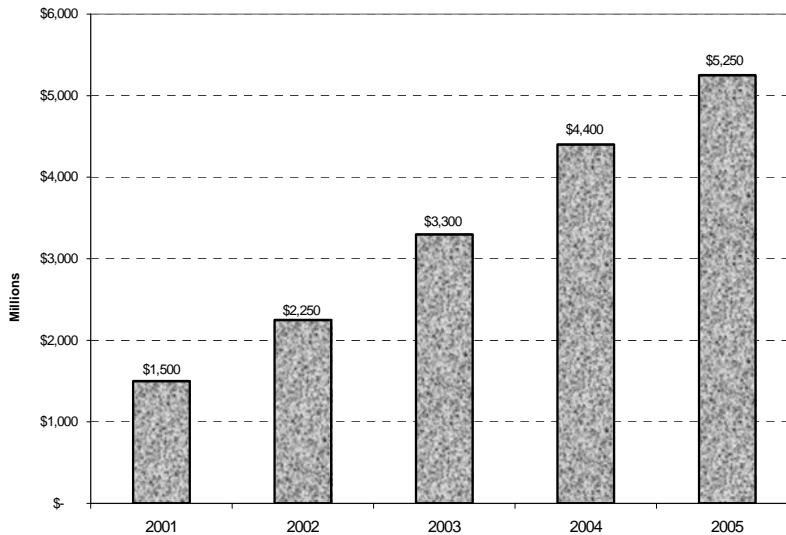
Increase the number of subscribers to new services that make efficient use of spectrum

Satellite Digital Audio Radio Service Subscribers



This chart displays subscriber growth in the SDARS from the second quarter of 2002 to the second quarter of 2006. Since June 2005, the number of SDARS subscribers has increased by 86%, from 6,232,116 subscribers to 11,578,078 subscribers.

Wi-Fi Infrastructure Hardware Revenue in the United States (2001-2005)



Sales of new equipment can also indicate an increase in the number of subscribers to new services that make efficient use of spectrum. Wi-Fi infrastructure hardware revenue increased by 250% from \$1,500 million in 2001 to \$5,250 million in 2005.

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

The World Radiocommunication Conferences (WRCs) are assembled every three to four years under the auspices of the International Telecommunication Union (ITU) and are tasked with revising treaty text in the form of Radio Regulations, which bind countries once ratified. The 2007 World Radiocommunication Conference (WRC-07) is scheduled 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 40 recommendations for the Commission.

The various conference agenda items have been initially assigned to the informal working groups as follows:

<i>Informal Working Groups (IWG)</i>	<i>Agenda Items (Major WRC-07 Issues)</i>
<u>IWG-1</u> – Terrestrial and Space Science Services	1.2, 1.3, 1.5, 1.14, 1.16, & 1.20
<u>IWG-2</u> – 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)
<u>IWG-3</u> – International Mobile Telephone (IMT-2000) & 2.5 GHz	1.4 & 1.9
<u>IWG-4</u> – Broadcasting and Amateur Services	1.6 (Resolution 414), 1.11, 1.13, 1.15, & 7.1 (Recommendation 952)
<u>IWG-5</u> – Regulatory Issues	1.1, 1.0, 1.12, 2, 3, 5, 6, & 7.1)

MEDIA

Strategic Goal:

The Nation's media regulations must promote competition and diversity and facilitate the transition to digital modes of delivery.

The Commission 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 Commission 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 Commission 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 Commission 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 Commission works to facilitate the timely development and deployment of digital services.

FY 2006 PERFORMANCE GOALS

- Facilitate the transition to digital television and further the transition to digital radio.
- Develop media rules and policies that achieve statutory policy objectives in light of significant changes to traditional media services.
- Enforce compliance with media rules.

FY 2006 PERFORMANCE HIGHLIGHTS

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

- Digital Television Transition – Legislation enacted in February 2006 established February 17, 2009 as the final deadline for the termination of full power analog broadcasting. The Commission performed several actions to facilitate a smooth transition from analog to digital television broadcasting:
 - A multi-round channel election process that will determine the permanent digital channels of the nation's 1,700 TV stations was completed. By July 7, 2006 all DTV licensees were required to replicate their analog signal coverage with DTV service. This build-out requirement ensured that consumers have access to a full range of digital programming services from their local broadcast stations;
 - A filing window was held for digital companion channels for LPTV, TV translator and Class A TV television permittees and licensees;

- The agency adopted a Second Report and Order that accelerated the date by which television receivers with screen sizes 13-24” and certain other TV receiving devices such as VCRs and digital video recorders must include the capability to receive broadcast digital television signals; and
 - The agency, on September 26, 2006, adopted an order resolving issues regarding the obligations of DTV licensees to provide educational programming for children and to protect children from excessive and inappropriate commercial messages.
- DTV Outreach – The Commission continued its campaign to educate the public about the transition to digital television. Commission staff conducted workshops, participated in panels, and spoke at events throughout the country. The www.dtv.gov Web site was expanded and enhanced, and now provides an extensive amount of information regarding the digital transition and answers consumers' frequently asked questions. A pilot public service advertising project was conducted in which DTV transition awareness ads were placed in Washington, DC Metro stations and on buses. Commission staff are exploring the possibility of conducting transit ad programs in other cities. An outreach toolkit was developed that can be used by tribal, state and local governments, and community organizations in conducting programs to raise consumer awareness about the transition. In addition, staff created a new DTV publication and updated existing materials to reflect recent developments, including the congressionally mandated digital-to-analog converter box coupon program. Publications are available to consumers at the point of sale, through the Commission’s web site, by phone, e-mail, written and fax request, and are distributed at public meetings and events. Both publications and Web information were produced in Spanish. As developments warranted, updates on DTV and other telecommunications topics were sent to subscribers of the “Consumer Information Registry,” the Commission’s free e-mail subscription service for distributing consumer-related news and information.
 - Plug and Play – There are now approximately 170,000 cableCARDS deployed by cable operators, which allow for “plug and play” compatibility of digital cable-ready consumer electronics. The agency is reviewing bi-monthly reports from the cable and consumer electronics industries on the status of two-way plug-and-play negotiations. A Public Notice was released to solicit comment on a report filed by the cable industry regarding the feasibility of a software-based downloadable conditional access.

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

- Media Ownership Rules – 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 found no longer to be “necessary in the public interest as a result of competition.” The agency adopted a Further Notice of Proposed Rulemaking initiating the 2006 quadrennial review. The FNPRM also seeks comment on how to address the issues raised by the Court of Appeals in *Prometheus v. FCC*, with respect to the court’s remand of certain of the Commission’s decisions in the 2002 review of the media ownership rules. As part of its review, the Commission expects to address proposals filed in the proceeding to advance minority and disadvantaged businesses and to promote diversity.

Enforce compliance with media rules:

- Satellite Home Viewer Extension and Reauthorization Act – SHVERA amended copyright laws and the Communications Act to aid the competitiveness of satellite carriers and expand

program offerings for satellite subscribers. The Commission continued to maintain its record of timely compliance with SHVERA's implementation deadlines:

- SHVERA provides satellite carriers with the option to offer out-of-market stations to subscribers in communities in which the station is or has been deemed "significantly viewed" based on over-the-air viewing. The final order and rules were adopted as required by statute; and
 - SHVERA directed the Commission to conduct an inquiry on whether the Commission should revise its digital TV signal strength standards and signal measurement procedures used to identify if a household is "unserved" for purposes of the satellite copyright license for distant signals. SHVERA further directed the Commission to provide Congress with a report on its findings and recommendations for any revisions that might be needed to those standards and procedures. In response, the Commission conducted the inquiry and issued the report to Congress. The Report stated, in relevant part, that the Commission needs to conduct a rulemaking proceeding to specify procedures for measuring the field strength of digital television signals at individual locations. Consistent with this statement, the agency initiated a rulemaking proposing to amend its rules to include procedures for measuring the field strength of digital television signals
- Enforcement – The Commission continued to meet statutory and internal deadlines for its enforcement responsibilities for broadcast, satellite, and cable operating matters. The agency initiated almost \$4 million in indecency enforcement actions. Further, the agency issued NALs and Forfeiture Orders totaling over \$128,000 for violations of Commission rules regarding broadcast of telephone conversations, maintenance of a public inspection file, main studio and prohibited contest practices. NALs issued to broadcast stations for failure to place all required records and documentation in the stations' public inspection files totaled over \$160,000. In addition, over \$50,000 in NALs were issued to broadcast stations for failure to file timely renewal applications.
 - 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). The Commission also hosted the Director General of Hong Kong's Office of the Telecommunications Authority to discuss media regulation. Additionally, meetings were held with Chinese government officials. Topics covered included advanced wireless, media, and broadband.
 - Cross-Border Activities with Mexico and Canada – The Commission, in conjunction with the State Department, engaged in numerous discussions with both Mexico and Canada on a number of cross-border interference issues. These discussions involved face-to face bilateral discussions along with numerous teleconferences. The Commission continued to implement existing DTV Memoranda of Understanding with Canada and Mexico, to ensure that broadcasters can maximize facilities along the border. Also, the Commission coordinated the applications for the new DTV facilities that affect cross-border operations. The Commission held ongoing discussions to permit digital In Band On Channel (IBOC) audio systems to become operational for AM and FM stations in the border area. The Commission engaged in negotiations to create a new Memorandum of Understanding with the Mexican Secretaria de

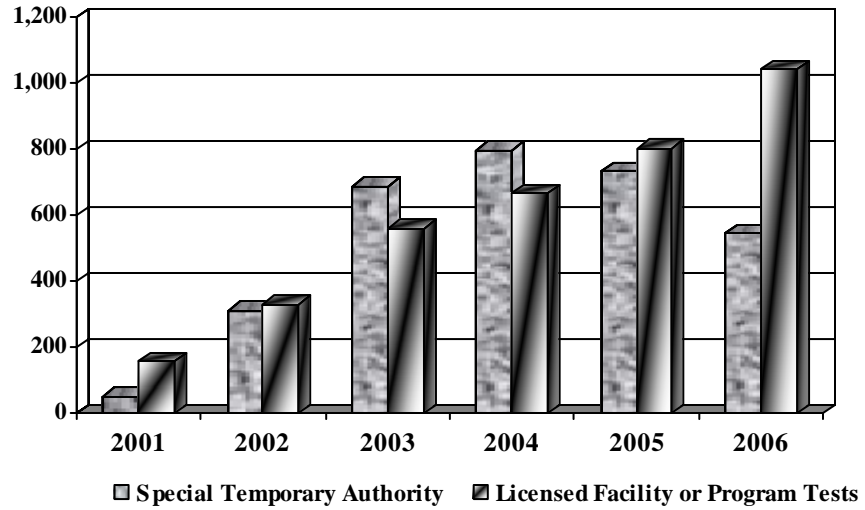
Comunicaciones y Transportes, which would permit more opportunities for Low Power TV operations in the border area.

FY 2006 PERFORMANCE INDICATORS

Continue progress in the transition to digital television and radio

At the end of FY 2006, a total of 1,586 of 1,687 licensed DTV stations (94%) were on the air with DTV operations. Of these, 1,041 are licensed digital facilities or facilities with program test authority and 545 are operating pursuant to Special Temporary Authority.

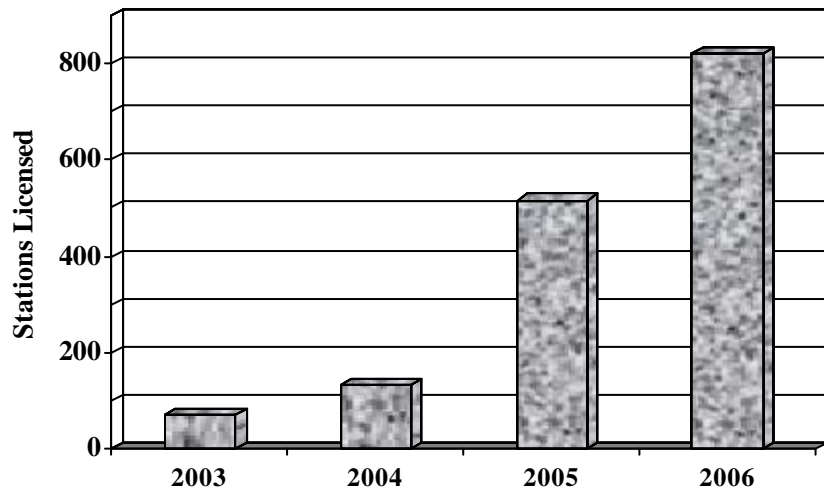
DTV Stations Authorized to be on the Air



Continue the transition to Digital Terrestrial Radio

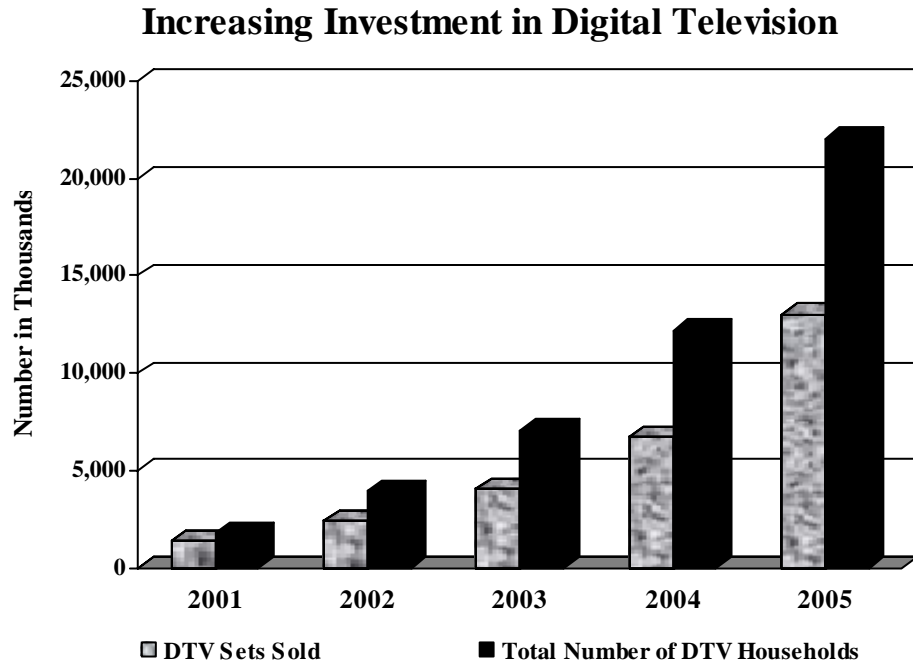
Implementation of AM and FM in-band, on-channel (IBOC) hybrid radio grew steadily during FY 2006, rising to a total of 818 stations operating with digital radio authorizations by June 30, 2006.

Digital Terrestrial Radio



Increase the investment by consumers in digital equipment

The number of new DTV sets sold to consumers has increased by 94% from 6.7 million DTV sets sold in 2004 to 13 million DTV sets sold in 2005. The total number of households with DTV sets has increased by 80% from 12.2 million in 2004 to 22 million in 2005.



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.

In the aftermath of Hurricane Katrina, Americans were reminded of the importance of reliable, readily available, and interoperable communications – for emergency personnel responding to the tragedy, for individuals communicating with family and friends, and for the Nation as a whole, anxious to stay informed of ongoing events on a minute-by-minute basis. The telecommunications, broadcast, and cable industries that the Commission regulates are critically important to our national well being in times of crisis. The reliance of numerous other critical industries, including banking, transportation, and energy, on the 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 2006 PERFORMANCE GOALS

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

FY 2006 PERFORMANCE HIGHLIGHTS

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

- Establishment of the Public Safety and Homeland Security Bureau – On September 25, 2006, the Commission established the Public Safety and Homeland Security Bureau 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.
- Emergency Relief and Disaster Recovery – Immediately following Hurricane Katrina and continuing throughout the first quarter of FY 2006, the Commission initiated its Gulf Coast Disaster Response effort which helped restore vital communications services in storm-affected areas. The agency issued more than 100 Special Temporary Authorizations (STAs) to storm-affected entities; most of the STAs were granted in less than 4 hours. The agency collected daily outage data from wireless carriers, and provided real-time analysis and mapping of this data to assist decision-makers with the coordination of recovery efforts. The agency issued a number of Public Notices granting relief to storm-affected providers, such as automatic extensions of filing and compliance deadlines. The agency also provided universal service benefits to areas affected by Hurricane Katrina, most notably making \$211 million in universal service funds available to respond to the disaster. The agency also acted quickly to reassign the phone number 1-800-RED-CROSS to the American Red Cross to facilitate that entity's disaster response efforts. Commission staff also were deployed to key DHS and FEMA national facilities, and provided on-the-ground support in Louisiana and Texas. Since last fall, the Commission has been working with the public safety community in the Gulf Coast region to assist with preparations in advance of this year's hurricane season.
- Hurricane Katrina Panel – In January of 2006, Chairman Martin established the Commission's *Independent Panel Reviewing the Impact of Hurricane Katrina on Communications Networks (Katrina Panel)*. The *Katrina Panel* examined the impact of Hurricane Katrina on all sectors of the telecommunications and media infrastructure in the areas affected by Hurricane Katrina, including public safety communications systems. The *Katrina Panel* made recommendations to the Commission on June 12, 2006 regarding ways to improve disaster preparedness, network reliability, and communications among first responders such as police, fire fighters, and emergency medical personnel. On June 19, 2006, the Commission released a notice of proposed rulemaking seeking comment on the *Katrina Panel's* findings and recommendations.
- 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) Operations Plan, Standard Operating Procedures (SOPs), Concept of Operations (CONOPS), and plans for the Gulf Coast region.
- Disaster Recovery Training – The National Communications System and the Commission jointly devised and implemented an intensive ESF-2 training program at the Homestead Air Reserve Base, Homestead, Florida. Following the training, the Commission identified staff members to complete four teams for national and regional ESF-2 deployment.
- 700 MHz Proceeding – In March 2006, the agency released a Notice of Proposed Rulemaking seeking comment on whether certain channels within the 700 MHz Public Safety band should be modified to accommodate broadband, and if so, how. Specifically, the Eighth NPRM seeks

comment on proposals to modify the twelve megahertz of wideband channels (50 kHz) to permit aggregation of wideband channels beyond 150 kHz to 1.25 MHz.

- Continuity of Operations Plan (COOP) – In May and June 2006, the agency participated in two emergency preparedness exercises. The agency also revised its COOP Procedure guidelines.
- Tribal Coordination – The agency held numerous meetings, workshops and presentations in Washington, D.C., and throughout the country with tribal government representatives to discuss critical communications infrastructure protection and public safety communications interoperability. The agency assisted various tribes to promote National Reliability Interoperability Council (NRIC) best practices in Indian Country.

Facilitate deployment of public safety technology:

- Wireless Enhanced 911 (E911) Proceedings – During FY 2006, the agency continued to monitor deployment of wireless E911 and Mobile Satellite Service E911 call center reports. 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 (NENA), as of July 2006, more than 66% of the total PSAPs in the country are receiving Phase II E911 location information from at least one carrier.
- Communications Assistance for Law Enforcement Acts (CALEA) Proceeding – The Commission adopted rules requiring that providers of facilities-based broadband Internet access services and interconnected Voice over Internet Protocol (VoIP) services comply with CALEA. These providers of newly covered services must be CALEA compliant by May 14, 2007. The Commission took this action in order to address federal law enforcement agencies' concerns that new communications technologies could otherwise be used to avoid lawful surveillance. A follow-up order provided additional instructions for providers of newly covered services on various compliance issues.
- Emergency Alert System (EAS) – On November 10, 2005, the Commission released a *First Report and Order and Further Notice of Proposed Rulemaking* in the EAS rulemaking proceeding expanding the scope of EAS to include digital radio and television, digital cable, Satellite Digital Audio Radio Service (SDARS) and Direct Broadcast Satellite (DBS) service. The Commission also sought comment on, among other things, how the Commission can best help develop a next-generation alert and warning system that takes full advantage of digital media's potential. The Commission is now considering the issues raised in the *Further Notice* and is working on addressing petitions for reconsideration of the *First Report and Order*.
- 800 MHz Rebanding Implementation – Throughout FY 2006, the agency actively oversaw the implementation of 800 MHz rebanding, which commenced in June 2005. The Commission provided direction to the 800 MHz Transition Administrator (TA) and worked with Sprint-Nextel and public safety stakeholders to address implementation issues.

In addition, in October 2005, the agency adopted a Memorandum Opinion and Order addressing petitions for reconsideration of the 800 MHz Report and Order and the 800 MHz Supplemental Order, which provided additional clarification relating to reconfiguration of the 800 MHz band in order to minimize interference among public safety entities, critical infrastructures entities, and commercial wireless carriers.

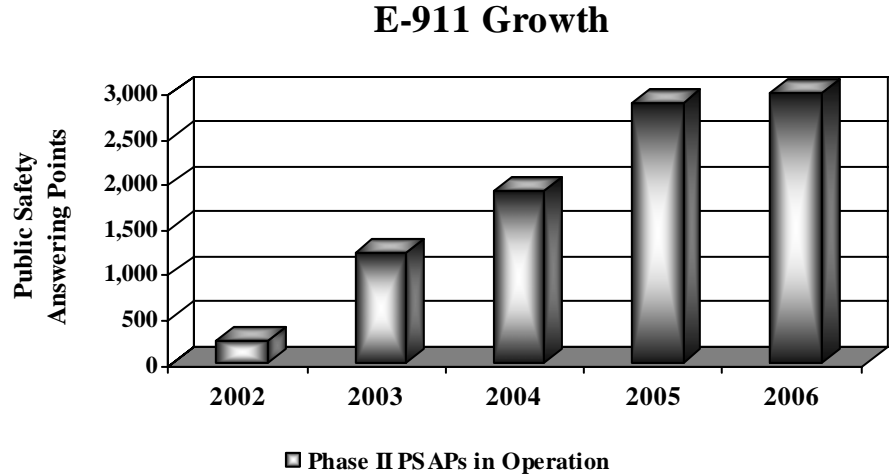
- International Maritime Organization (IMO) – Throughout FY 2006, the agency collaborated with the U.S. Coast Guard and the Department of Homeland Security (DHS) on matters before the IMO. The IMO has undertaken a comprehensive effort to build a maritime security infrastructure so that governments and industry would have proper guidance to meet the challenges to protect shipping against international terrorism.
- Inmarsat Broadband Global Area Network (BGAN) – Throughout FY 2006, the agency coordinated with DoJ and DHS requests for authority to provide BGAN service in the United States.
- Education and Outreach – Throughout FY 2006, 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.
- Report to Congress on Spectrum Needs of Emergency Response Providers – Pursuant to the Intelligence Reform and Terrorism Prevention Act of 2004, on December 19, 2005, the Chairman of the Commission submitted to Congress a report assessing the short- and long-term spectrum needs of emergency response providers. The report committed that the Commission would expeditiously examine whether certain channels within the current allocation of twenty-four megahertz of public safety spectrum in the 700 MHz band could be modified to accommodate broadband communications.
- Intelligent Transportation Systems (ITS) Radio Service – In July 2006, the agency released the Dedicated Short Range Communications (DSRC) Memorandum Opinion and Order, which revised licensing and service rules for the DSRC service in the 5.9 GHz band. This service involves vehicle-to-vehicle and vehicle-to-infrastructure communications aimed at protecting the safety of the traveling public, eligible for public safety and commercial uses.
- Specific Examples of Outreach and Coordination Activities –
 - A Commission staffer was selected to participate in an Incident Management Team (IMT) to advise the Secretary of Homeland Security on the needs of persons with disabilities impacted by the Gulf Hurricanes Katrina and Wilma. That same person was detailed for 60 days to the Department of Homeland Security, Office of Civil Rights and Civil Liberties, to assist that office in responding to the needs of persons with disabilities in shelters and evacuees of the Gulf hurricanes; the person was deployed to the Joint Field Office in Austin, TX, to act as DHS Disability Specialist and to advise in the recovery efforts with respect to persons with disabilities;
 - In October 2005, the Commission convened the Intergovernmental Advisory Committee (IAC) meeting at the Commission which included an overview session on Emergency Preparedness for Local, State and Tribal Governments and a presentation by DHS/NCS staff on Federal Emergency Preparedness Activities and Response to Hurricanes Katrina and Rita. During the meeting, the IAC submitted their comments and recommendations on telecommunications preparedness issues to the Commission;
 - 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;
- Starting in February 2006, the Commission worked with NARUC to develop a list of key points of contact (POCs) at the Commission and at each State Commission and at NARUC who should be contacted in the event of a disaster or national security event. The POC list was delivered and distributed to appropriate Commission staff and State Commission staff as the 2006 hurricane season began. This POC list was ready to use by Commission staff during the June 2006 COOP exercise; and
 - 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.
- Media Security and Reliability Council (MSRC II) – MSRC II, a Federal Advisory Committee established in response to the attacks of September 11, 2001, continued to recommend best practices to the Commission to promote the reliability and security of the nation’s AM, FM, TV, Cable and Satellite operations in the event of terrorist attack or natural disaster. Specifically, MSRC II developed model disaster recovery plans and local market agreement templates that can be adapted for individual station use.

FY 2006 PERFORMANCE INDICATORS

Increasing deployment of E-911

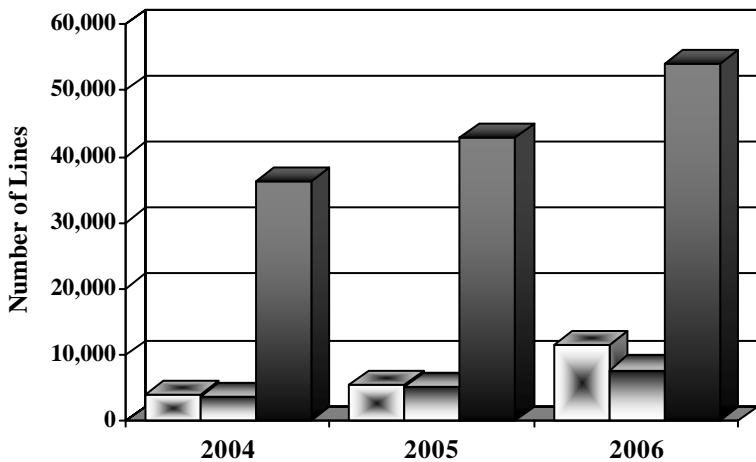
From August 2005 to August 2006, Phase II of E-911 Operational Growth increased by 31% (from 2,882 to 3,777). This chart reflects the number of Public Safety Answering Points (PSAPs) receiving Phase II location information from at least one mobile service licensee. To receive E911 data from any mobile service licensee, a PSAP must have become fully E911



capable. Thus, all PSAPs reflected in this chart are capable of receiving E911 data from multiple mobile service licensees. This chart also indicates that at least some of the customers served by these PSAPs have access to E-911. Phase II rules require licensees to transmit 911 caller location information to PSAPs with greater accuracy than Phase I deployment. To monitor E-911 progress closely, each carrier is required to file quarterly reports with the Commission on February 1, May 1, August 1, and November 1 of each year.

Increasing Telecommunications Service Priority Participation

Telecommunications Service Priority Participation



■ 911 Center TSP Participation ■ State & Local Governments ■ Federal Government

The Commission 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 end of FY 2005, a total of 5,401 911 call center circuits were enrolled in the TSP program. By the end of July 2006, a total of 11,454 911 call center circuits were covered by the TSP program. This amounted to a 112% increase in 911 call center circuits enrolled in TSP.

During FY 2006, the Commission examined the TSP participation rates of Federal agencies and state and local governments. At the end of FY 2005, the Federal government had 42,801 circuits enrolled in the TSP program; by the end of July 2006, a total of 54,108 Federal government circuits were covered. At the end of FY 2005, state and local governments had 5,028 circuits enrolled in the TSP program; by the end of July 2006, a total of 7,630 state and local government circuits were covered. The TSP program increases the reliability of essential NS/EP communications services by minimizing out-of-service times. As a result, these circuits were made more reliable, thus helping to achieve the Commission's TSP objectives.

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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 2006 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 2006 PERFORMANCE HIGHLIGHTS

Easier Organization to Do Business With:

- Implemented a modern, automated system for handling consumer concerns – The last phase of the Consumer Information Management System (CIMS) was deployed in April 2006 when consumer slamming complaints and inquiries began to be handled through CIMS. The training for Consumer Advocacy and Mediation Specialists on the Remedy component of CIMS was also completed in April 2006.
- Reduced the time it took to process complaints filed with the Commission – The Commission took numerous steps to improve the complaint process, including implementing RightFax which directs faxes sent to the agency's main fax numbers to a dedicated server where they are forwarded electronically to appropriate staff, thereby reducing the time to scan documents from over a week to under three days. Other time-saving steps that the Commission took include:
 - Revising and updating consumer fact sheets on all areas of telecommunications;
 - Adding resources to the Processing Center in the Reference Information Center to ensure that complaints, inquiries and carrier responses received by postal mail are scanned and indexed within three days of receipt by the Consumer and Governmental Affairs Bureau; and
 - Creating ad hoc processing and escalation teams as needed to deal with areas of intense public interest or where consumer inquiries potential require analysis of a

novel legal question. These teams help provide accurate responses to consumers' challenging questions as quickly and efficiently as possible.

- Upgraded Commission licensing and permitting functionality –
 - The Tower Construction Notification System was upgraded to include enhancement features for both industry and tribal interests;
 - Integrated Spectrum Auction System was enhanced to include functionality that would allow the Commission to withhold certain information related to bidder interests, bids and bidder identities;
 - Streamlined Form 603 (FCC Wireless Telecommunications Bureau Application for Assignments of Authorization and Transfers of Control), provided new electronic filing interface, and deployed a new electronic filing module for wireless spectrum leasing (FCC Form 608);
 - Offered a new Call Sign/FRN (FCC Registration Number) association feature in the Universal Licensing System;
 - Provided a feature to allow an electronic submission of pleadings;
 - Implemented automated termination of licenses for unconstructed stations; and
 - Added Surrender and Satellite Milestone Submission modules to MyIBFS, the electronic filing site for international and satellite applications. The surrender module provides licensees with a computer-based mechanism to surrender one or more licenses through a series of interactive screens. Satellite licensees required to meet certain milestones are able to submit their certifications and all public documents associated with each certification through the Milestone Module, and to see the current status of each submission.

- Enhanced the Commission's computer network to minimize downtime and improve performance – Actions that made it easier for the external public to do business with the Commission included upgrading the Commission's:
 - Microsoft Exchange E-mail messaging system; and
 - Public Demilitarized Zone (DMZ) network infrastructure to improve reliability, security and performance of inbound and outbound Internet traffic and to enhance access to all Commission public facing systems.

- Made it easier to apply for a job at the Commission – The Commission created a web-based recruitment system (FCCJobs) that for the first time allows employees and outside job seekers to apply for Commission job opportunities on-line. The system electronically qualifies, rates, and ranks applicants and quickly produces a list of best qualified candidates shortly after the vacancy announcement closes. The system enhances the Commission's ability to provide prompt feedback to applicants and to make speedier selections. This system significantly improves the Commission's competitiveness in the job market and significantly enhances its ability to reach top talent.

- Allowed the public to easily find out about the Commission's Paperwork Reduction Act Information Collections – The Office of Media Relations and the Office of the Managing Director introduced a new on-line capability that allows the public to interactively sort and display details about all Commission-sponsored information collections currently approved by the Office of Management and Budget (OMB); sorting and display can be done according to FCC form number, expiration date of OMB approval, number of annual responses, annual burden hours, annual cost, or responsible bureau or office.

- Described and grouped web information in a user-friendly manner – The Commission created centralized, on-line sources of information on telecommunications topics such as the Commission’s regulation of obscenity, indecency and profanity in broadcast programming, emergency services and VoIP service, and federal and state Lifeline and Link-Up programs.
- Decreased the time it took to process earth station and space station applications by 14% and 9%, respectively – Since the implementation of space station licensing reform in August 2003, there has been an overall improvement of 64% in the processing of space station applications. The Commission also evaluated compliance with 14 space station milestones to measure the progress satellite licensees had made with the service rollout plans their licenses had been conditioned upon. Based on its evaluation, the Commission revoked 5 licenses and an additional 5 entities surrendered their licenses during this time. As a result, more spectrum was made available to new applicants.

Culture That Encourages Innovation, Accountability, and Continuous Improvements:

- Strengthened internal controls and financial management – During FY 2006, the Commission took several steps to improve and strengthen its internal controls and financial management. The Commission conducted a systematic risk assessment of its operations. Furthermore, throughout FY 2006, the Commission focused on closing previous audit findings. As a result of these efforts, the Commission closed out all the material weaknesses from the FY 2005 annual financial audit and has no material weaknesses reported for FY 2006.
- Continued development of the Strategic Human Capital Plan – To move the Human Capital Plan closer to completion, a Human Resources Advisory Group, comprised of senior management officials from each bureau, was established in FY 2006. The group solicited input from throughout the organization to determine issues that may affect the future workforce needs of the Commission. The group used this information in combination with an analysis of the current workforce to identify gaps and project future staffing needs. At the end of FY 2006, the group was developing recommended solutions to address identified areas of concern, and the draft Strategic Human Capital Plan was nearing completion.
- Took action to address areas of low employee satisfaction – In response to employee concerns identified in OPM’s Human Capital survey, bureaus and offices at the Commission took numerous steps to improve communication among the staff, including:
 - Implementing employee suggestion boxes;
 - Routine management and staff meetings;
 - Routine trips by senior management to offices outside of Washington, D.C.;
 - Routine management recognition of the accomplishments of individual staff members; and
 - Establishment of Volunteer Action Committees to develop specific recommendations to address employee concerns.
- Gave employees the tools they needed to be innovative and accountable – The Commission improved the automated tools that employees need to effectively do their jobs by:
 - Implementing a computer vulnerability management solution to enforce global security policies, reduce network exposures, and increase vulnerability prioritization;

- Enhancing the agency's storage area network to improve data access performance and to increase disk capacity;
 - Replacing old and obsolete server hardware, network printers and notebook computers as part of a lifecycle replacement initiative;
 - Replacing old and obsolete Revenue Accounting Management Information System (RAMIS) server hardware to improve support, facilitate troubleshooting and reduce maintenance costs;
 - Implementing an enterprise wide anti-spam solution;
 - Implementing a Virtual Private Network (VPN) connection between the Commission and NFC to process payroll and personnel information more securely;
 - Upgrading Windows patch management system to improve patching efficiencies; and
 - Improving the process by which daily clips are done by adding an Intranet web based form for compiling the articles and delivering the electronic clips in a manner that allowed the user to access individual articles as well as all of the daily clips.
- Studied ways to improve the Commission's web site – The agency initiated evaluation strategies for modernizing the agency's main search engine and switching to automated web compliance and operations management solutions, through webmaster requirements surveys, technology demonstrations, and web governance workshops.

Effective communications:

- Became more accessible to all consumers – Implementation of web-based complaint forms (Forms 475 and 475B) in Spanish as well as English made the Commission's services available to a broader and more diverse group of individuals.
- Kept information current and relevant – The Commission revised and updated the scripts used by the Consumer Advocacy and Mediation Specialists to a format that lists the most frequently asked questions and answers on various telecommunications topics.
- Kept the Commission operating in times of emergency – The Commission took several steps during the fiscal year to ensure that it can continue to have effective communications even during times of emergency. These steps included:
 - Upgrading the COOP site DMZ by implementing a defense in depth architecture and adding another layer of a high availability firewall solution to improve overall security;
 - Installing an Emergency Preparedness Software (EPS) system to provide up-to-date contact information including Blackberry handheld PIN information, for designated COOP members and participants for the purpose of emergency communications;
 - Upgrading the COOP site backbone network infrastructure to handle increased DRP/COOP functionality;
 - Implementing a Blackberry system at our COOP facility to improve mobile communications during disaster recovery operations and to better manage business continuity through mobile computing;
 - Installing incident management software (E-Team) to help track and document management activities during emergencies; and
 - Made press e-mail lists available from remote locations using secure tokens so that, if the need arises for press releases to go out during an emergency or after business hours, Commission officials responsible for contacting the press can now do so anytime from any location.

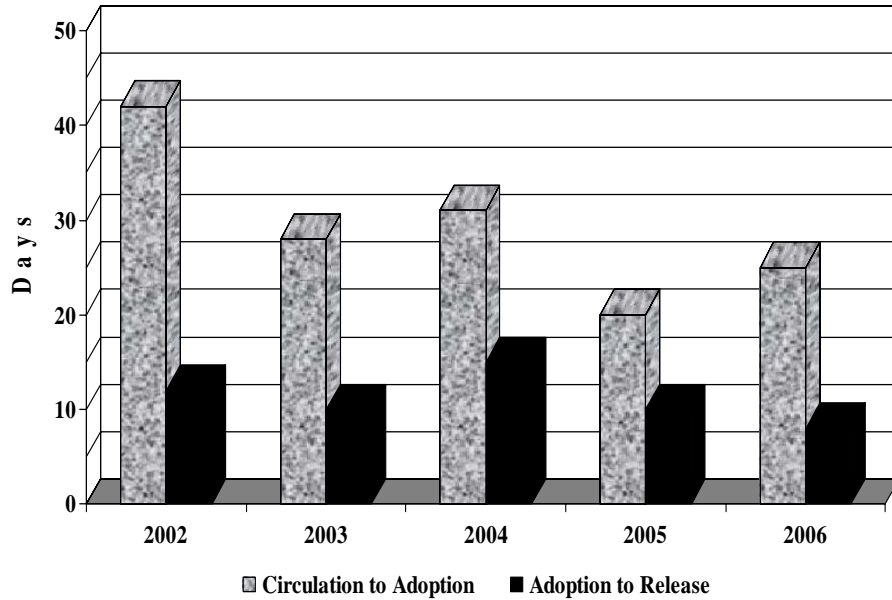
- Protected and respected privacy rights – The Commission developed, coordinated and successfully implemented a new, fully-featured, fully-compliant set of on-line Privacy Policies for the Commission’s entire Internet presence in accordance with information security portions of the E-Government Act, and as part of the agency's Privacy Improvement Plan to bring the Commission into compliance with all statutory, regulatory, and Administration-policy requirements for Federal privacy programs. Accomplishments included: a new and more comprehensive stand-alone Privacy Policy webpage suite; a modern machine-readable version of the privacy policy; a new Privacy Act webpage; a policy reference file; a revised Web Policies page; a revised Commission standard webpage template; an online privacy training course for employees and contractors; and a detailed internal reference website on privacy issues for Commission ITC and web staff.
- Used information efficiently – The Consumer and Governmental Affairs and Enforcement Bureaus enhanced their working relationship by enhancing the sharing of information between them so that a consumer only needed to file a complaint once in order to have it acted upon both as a consumer complaint and as a potential enforcement action.

FY 2006 PERFORMANCE INDICATORS

Reduce the average time required to complete rulemakings

The Commission’s processing time for “circulation to adoption” increased by 25% (20 to 25) and “adoption to release” decreased by 20% (10 to 8) between FY 2005 and FY 2006. At the same time, the number of rulemakings decreased by 11% from 118 to 105.

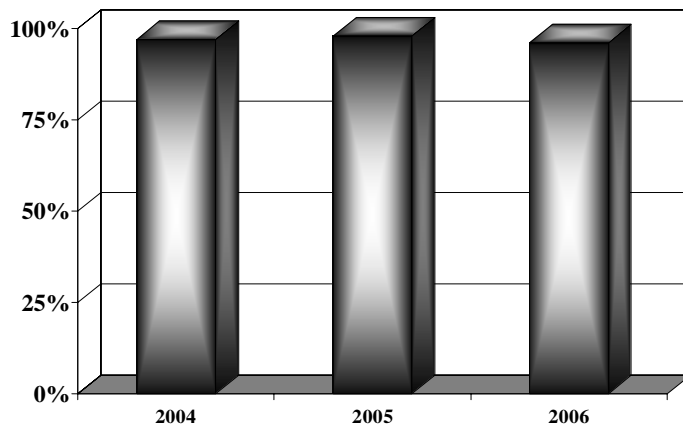
AVERAGE TIME TO COMPLETE RULEMAKINGS



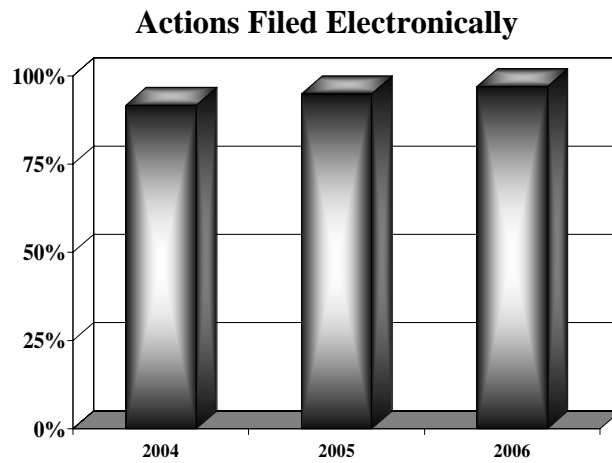
Increase efficiency in the processing of workload

FY 2006, 96% of the agency’s actions were disposed within the processing goals. Performance over the last three years exceeded the agency’s speed of disposal goal of 95%.

Actions Disposed of Within Speed of Disposal Goal



In FY 2006 the Commission returned to 97% electronic filing — an increase of two percentage points over FY 2005. In both years the Commission exceeded its 90% goal for electronic or on-line filing.



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3. Financial Statements and Auditor's Reports

Message from the Chief Financial Officer

I am pleased to present the Federal Communications Commission's (Commission) financial statements for fiscal year (FY) 2006. I am also pleased to report that the Commission's auditors issued an unqualified audit opinion on each of the Commission's financial statements for FY 2006.

The Commission made significant advancements during FY 2006 in improving its financial operations and strengthening its internal control environment. Throughout FY 2006, the Commission closed previous audit findings and worked hard to resolve the four material weaknesses that were reported by the Commission's auditors in FY 2005. As a result of these efforts, the Commission closed out all material weaknesses from FY 2005 and has no material weaknesses reported for FY 2006. Furthermore, the Commission reduced the total number of recommendations reported by the auditors by over 40 percent from FY 2005 to FY 2006. Finally, the Commission made significant progress in increasing its compliance with applicable laws and regulations. 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 FY 2006 audit report identifies additional opportunities to improve the Commission's internal controls. These include the current state of both the Commission's and its reporting components' financial management systems, the need for increased oversight over the reporting components' activities, and instances of non-compliance with relevant government management laws and regulations, including the Debt Collection Improvement Act and OMB Circular A-130.

The Commission's greatest challenge is replacing its outdated core financial management system. The Commission is approaching this challenge as an opportunity to deliver on its strategic goal of modernizing the Commission and to establish a legacy of effectiveness. The replacement of the core financial management system has allowed the Commission to re-evaluate its business needs and set a new course for the future. The Commission plans to complete the first phase of this project in FY 2007 and to implement its new core financial management system no later than October 1, 2009.

As for the Commission's efforts to increase oversight over reporting components' activities, FY 2006 was a groundbreaking year for bringing increased focus to the Commission's oversight of the reporting components. The Commission, working with its reporting components, has set many new accountability initiatives in motion and will continue building on those initiatives throughout FY 2007.

I look forward to FY 2007 and to making every effort to continue to strengthen the Commission's internal control environment and to improve the effectiveness of the Commission's financial operations.



Mark Stephens
Chief Financial Officer
November 15, 2006

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LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the 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 Federal Communications Commission (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. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

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PRINCIPAL STATEMENTS

FEDERAL COMMUNICATIONS COMMISSION CONSOLIDATED BALANCE SHEET

As of September 30, 2006 and 2005

(Dollars in thousands)

	FY 2006	Unaudited FY 2005
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 606,696	\$ 1,522,785
Investments (Note 5)	4,723,516	4,139,945
Accounts Receivable (Note 6)	229,322	4,996
Total Intragovernmental	<u>5,559,534</u>	<u>5,667,726</u>
Cash and Other Monetary Assets (Note 4)	3,152,377	57,114
Accounts Receivable, net (Note 6)	933,943	673,493
Loans Receivable, net (Note 7)	149,421	1,257,265
General Property, Plant, and Equipment, net (Note 9)	38,156	51,198
Other	10,013	10,447
Total Assets	<u>\$ 9,843,444</u>	<u>\$ 7,717,243</u>
LIABILITIES (Note 10)		
Intragovernmental		
Debt (Note 11)	\$ 448,997	\$ 1,273,798
Other (Note 12)		
Custodial	152,036	222,350
Other	1,810	1,826
Total Other	<u>153,846</u>	<u>224,176</u>
Total Intragovernmental	602,843	1,497,974
Accounts Payable	300,925	74,451
Other (Note 12)		
Deferred Revenue	3,100,144	1,185,774
Prepaid Contributions	63,461	57,360
Deposit/Unapplied Liability	41,737	5,232
Accrued Liabilities for Universal Service	451,860	418,826
Telecommunications Development Account (TDA) Interest	28,623	1
Other	42,130	43,399
Total Other	<u>3,727,955</u>	<u>1,710,592</u>
Total Liabilities	<u>\$ 4,631,723</u>	<u>\$ 3,283,017</u>
Commitments and Contingencies (Note 14)		
NET POSITION		
Unexpended Appropriations	\$ -	\$ 24,617
Unexpended Appropriations - Earmarked Funds (Note 23)	-	-
Unexpended Appropriations - Other Funds	17,843	-
Cumulative Results of Operations	-	4,409,609
Cumulative Results of Operations - Earmarked Funds (Note 23)	5,112,001	-
Cumulative Results of Operations - Other Funds	81,877	-
Total Net Position	<u>\$ 5,211,721</u>	<u>\$ 4,434,226</u>
Total Liabilities and Net Position	<u>\$ 9,843,444</u>	<u>\$ 7,717,243</u>

The accompanying notes are an integral part of these statements.

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

For the Years Ended September 30, 2006 and 2005

(Dollars in thousands)

	FY 2006	Unaudited FY 2005
PROGRAM COSTS:		
Broadband:		
Gross costs (Note 15)	\$ 26,795	\$ 24,692
Less: Earned Revenue (Note 15)	(30,374)	(26,995)
Net Program Costs	<u>(3,579)</u>	<u>(2,303)</u>
Competition:		
Gross costs (Note 15)	7,259,004	6,679,252
Less: Earned Revenue (Note 15)	(117,840)	(118,231)
Net Program Costs	<u>7,141,164</u>	<u>6,561,021</u>
Spectrum:		
Gross costs (Note 15)	446,348	503,517
Less: Earned Revenue (Note 15)	(248,297)	(489,887)
Net Program Costs	<u>198,051</u>	<u>13,630</u>
Media:		
Gross costs (Note 15)	30,887	30,433
Less: Earned Revenue (Note 15)	(33,584)	(31,887)
Net Program Costs	<u>(2,697)</u>	<u>(1,454)</u>
Homeland Security:		
Gross costs (Note 15)	37,851	35,445
Less: Earned Revenue (Note 15)	(41,196)	(36,953)
Net Program Costs	<u>(3,345)</u>	<u>(1,508)</u>
Modernize the FCC:		
Gross costs (Note 15)	50,228	53,334
Less: Earned Revenue (Note 15)	(54,573)	(54,280)
Net Program Costs	<u>(4,345)</u>	<u>(946)</u>
Total Net Program Costs	7,325,249	6,568,440
Cost not Assigned to Programs:		
Telecommunications Development Fund	28,885	1,314
Other Expenses	4,954	(759)
Less: Earned Revenues not Attributed to Programs:		
Telecommunications Development Fund	<u>(28,885)</u>	<u>(1,314)</u>
Net Cost of Operations	<u>\$ 7,330,203</u>	<u>\$ 6,567,681</u>

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, 2006 and 2005

(Dollars in thousands)

	FY 2006			Unaudited FY 2005
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	\$ 4,276,827	\$ 132,782	\$ 4,409,609	\$ 2,267,478
Adjustments:				
Changes in accounting principles (Note 24)	-	9,886	9,886	-
Beginning Balance, as adjusted	4,276,827	142,668	4,419,495	2,267,478
Budgetary Financing Sources:				
Other Adjustments (rescissions, etc.)	-	(2,463)	(2,463)	(1,095)
Appropriations Used	-	142,847	142,847	1,272,637
Non-exchange Revenue	7,982,384	-	7,982,384	7,449,284
Other Financing Sources (Non Exchange):				
Transfers in/ out reimbursement	-	(32,233)	(32,233)	(25,463)
Imputed financing	-	14,068	14,068	14,449
Other	-	(17)	(17)	-
Total Financing Sources	7,982,384	122,202	8,104,586	8,709,812
Net Cost of Operations	7,147,210	182,993	7,330,203	6,567,681
Net Change	835,174	(60,791)	774,383	2,142,131
Cumulative Results of Operations	5,112,001	81,877	5,193,878	4,409,609
Unexpended Appropriations:				
Beginning Balances	-	24,617	24,617	38,155
Adjustments:				
Changes in accounting principles (Note 24)	-	(9,886)	(9,886)	-
Beginning Balance, as adjusted	-	14,731	14,731	38,155
Budgetary Financing Sources:				
Appropriations Received	-	146,168	146,168	1,260,763
Other Adjustments	-	(209)	(209)	(1,664)
Appropriations Used	-	(142,847)	(142,847)	(1,272,637)
Total Budgetary Financing Sources	-	3,112	3,112	(13,538)
Total Unexpended Appropriations	-	17,843	17,843	24,617
Net Position	5,112,001	99,720	5,211,721	4,434,226

The accompanying notes are an integral part of these statements.

**FEDERAL COMMUNICATIONS COMMISSION
COMBINED STATEMENT OF BUDGETARY RESOURCES**

For the Years Ended September 30, 2006 and 2005

(Dollars in thousands)

	FY 2006		Unaudited FY 2005	
	Budgetary	Non Budgetary Credit Program Financing Acct	Budgetary	Non Budgetary Credit Program Financing Acct
Budgetary Resources:				
Unobligated balance, brought forward, October 1:	\$ 1,006,367	\$ 67,196	\$ 272,571	\$ 59,507
Recoveries of prior year unpaid obligations	954,957	-	664,116	-
Budget authority:				
Appropriations received	8,306,644	-	9,899,436	-
Borrowing authority	-	183,059	-	38,124
Spending authority from offsetting collections				
Earned:				
Collected	384,148	1,320,704	416,792	2,981,006
Change in receivables from Federal sources	31	-	(342)	-
Change in unfilled customer orders:				
Without advance from Federal sources	-	-	13	-
Previously unavailable	12,000	-	-	-
Budget authority subtotal	<u>8,702,823</u>	<u>1,503,763</u>	<u>10,315,899</u>	<u>3,019,130</u>
Temporarily not available pursuant to Public Law	(25,300)	-	(12,000)	-
Permanently not available	(2,686)	(1,007,860)	(2,742)	(2,705,090)
Total Budgetary Resources	<u>\$ 10,636,161</u>	<u>\$ 563,099</u>	<u>\$ 11,237,844</u>	<u>\$ 373,547</u>
Status of Budgetary Resources:				
Obligations incurred: (Note 16)				
Direct	\$ 8,653,372	\$ 278,958	\$ 10,230,118	\$ 306,351
Reimbursable	1,778	-	1,359	-
Subtotal	<u>8,655,150</u>	<u>278,958</u>	<u>10,231,477</u>	<u>306,351</u>
Unobligated balance:				
Apportioned	155,098	187	217,449	382
Unobligated balance not available	<u>1,825,913</u>	<u>283,954</u>	<u>788,918</u>	<u>66,814</u>
Total, Status of Budgetary Resources	<u>\$ 10,636,161</u>	<u>\$ 563,099</u>	<u>\$ 11,237,844</u>	<u>\$ 373,547</u>
Change in Obligated Balance:				
Obligated balance, net				
Unpaid Obligations, brought forward, October 1	\$ 3,265,134	\$ -	\$ 3,085,539	\$ -
Less: Uncollected customer payments from Federal sources, brought forward, October 1	<u>15</u>	<u>-</u>	<u>344</u>	<u>-</u>
Total unpaid obligated balance, net	3,265,119	-	3,085,195	-
Obligations incurred net (+/-)	8,655,150	278,958	10,231,477	306,351
Less: Gross outlays	8,066,684	278,958	9,387,765	306,351
Less: Recoveries of prior year unpaid obligations, actual	954,957	-	664,116	-
Change in uncollected customer payments from Federal sources	(31)	-	343	-
Obligated balance, net, end of period				
Unpaid obligations	2,898,642	-	3,265,134	-
Less: Uncollected customer payments from Federal sources	<u>46</u>	<u>-</u>	<u>15</u>	<u>-</u>
Total, unpaid obligated balance, net, end of period	<u>2,898,596</u>	<u>-</u>	<u>3,265,119</u>	<u>-</u>
Net Outlays				
Net Outlays:				
Gross outlays	\$ 8,066,684	\$ 278,958	\$ 9,387,765	\$ 306,351
Less: Offsetting collections	384,148	1,320,704	416,792	2,981,006
Less: Distributed Offsetting receipts (Note 22)	32,233	-	25,463	-
Net Outlays	<u>\$ 7,650,303</u>	<u>\$ (1,041,746)</u>	<u>\$ 8,945,510</u>	<u>\$ (2,674,655)</u>

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF FINANCING
For the Years Ended September 30, 2006 and 2005
(Dollars in thousands)

Resources Used to Finance Activities:	FY 2006	Unaudited FY 2005
Budgetary Resources Obligated		
Obligations incurred	\$ 8,934,108	\$ 10,537,828
Less: Spending authority from offsetting collections and recoveries	<u>2,659,840</u>	<u>4,061,585</u>
Obligations net of offsetting collections and recoveries	6,274,268	6,476,243
Less: Offsetting receipts (Note 22)	<u>32,233</u>	<u>25,463</u>
Net obligations	6,242,035	6,450,780
Other Resources		
Transfers in/out without reimbursement (+/-) (Note 22)	32,233	25,463
Imputed financing from costs absorbed by others	14,068	14,449
Other (+/-)	<u>17</u>	<u>-</u>
Net other resources used to finance activities	46,318	39,912
Total resources used to finance activities	6,288,353	6,490,692
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided (+/-)	(374,883)	168,435
Resources that fund expenses recognized in prior periods	316,972	1,269,099
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	(1,320,706)	(3,016,923)
Other	98,409	350,860
Resources that finance the acquisition of assets	404,819	1,137,808
Other resources or adjustments to net obligated resources that do not affect net cost of operations (+/-)	<u>23,192</u>	<u>57,786</u>
Total resources used to finance items not part of the net cost of operations	<u>(852,197)</u>	<u>(32,935)</u>
Total resources used to finance the net cost of operations	7,140,550	6,523,627
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	(111)	-
Upward/Downward reestimates of credit subsidy (+/-)	22,444	(44,224)
Increase in exchange revenue receivable from the public	(8,370)	2,957
Other (+/-)	<u>32,542</u>	<u>32,205</u>
Total components of Net Cost of Operations that will require or generate resources in future periods	46,505	(9,062)
Components not Requiring or Generating Resources:		
Depreciation and Amortization	21,712	16,922
Other (+/-)	<u>121,436</u>	<u>36,194</u>
Total components of Net Cost of Operations that will not require or generate resources	<u>143,148</u>	<u>53,116</u>
Total components of Net Cost of Operations that will not require or generate resources in the current period	<u>189,653</u>	<u>44,054</u>
Net Cost of Operations	<u>\$ 7,330,203</u>	<u>\$ 6,567,681</u>

The accompanying notes are an integral part of these statements.

**FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY**

For the Years Ended September 30, 2006 and 2005

(Dollars in thousands)

	FY 2006	Unaudited FY 2005
Revenue Activity:		
Sources of Cash Collections:		
Spectrum Auctions	\$ 104,471	\$ 152,355
Fines and Penalties (Note 25)	100,133	12,435
Credit Reform	276,311	269,233
TDA Interest	28,885	1,314
Total Cash Collections	<u>509,800</u>	<u>435,337</u>
Accrual Adjustments		
Spectrum Auctions	4,121	6,132
Fines and Penalties	20,119	(1,472)
Total Accrual Adjustments	<u>24,240</u>	<u>4,660</u>
Total Custodial Revenue	534,040	439,997
Disposition of Collections:		
Transferred to Others:		
Recipient A: U.S. Treasury	(490,469)	(441,448)
(Increase)/Decrease in Amounts Yet to be Transferred	70,314	87,780
Retained by the Reporting Entity	<u>(113,885)</u>	<u>(86,329)</u>
Net Custodial Activity	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these statements.

NOTES TO THE PRINCIPAL FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005 (UNAUDITED AS TO FY 2005)
(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 comprises 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 and the form and content for entity financial statements specified by OMB Circular A -136 "Financial Reporting Requirements."

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

Fund Balance with Treasury

Funds with the Department of the Treasury (Treasury) primarily represent appropriated, revolving, and deposit funds. The 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 other entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts.

Loans

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

Property, Plant and Equipment

The basis for recording purchased general Property, Plant, and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to and from a location suitable for its intended use. All PP&E with an initial acquisition cost of \$25 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)

Property, Plant and Equipment (continued)

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

Other Assets

Other Assets represents the balance of transfers less expenses made by the USF to 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.

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. 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

Regulatory Fee Collections (Exchange) - 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 \$298,771 for FY 2006 and \$280,098 for FY 2005 were achieved. The Congress has designated \$10,000 of the FY 2006 fees for deposit into Treasury.

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 \$108,592 in FY 2006 and \$158,487 in FY 2005.

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 totaled \$85,000 in FY 2006 and \$85,000 in FY 2005.

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 \$22,233 in FY 2006 and \$25,463 in FY 2005.

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 \$1,426 in FY 2006 and \$1,372 in FY 2005.

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 2006 is \$289,758 with regulatory fee collections of \$288,771 resulting in a net appropriation of \$987. The annual appropriation for FY 2005 was \$281,085 with regulatory fee collections of \$280,098 resulting in a net appropriation of \$987.

Subsidy Estimates and Reestimates (Financing Source) – 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 \$145,181 in FY 2006 and \$1,259,776 in FY 2005 for these purposes. These appropriations are available until used.

Note 1 - Summary of Significant Accounting Policies (continued)

Revenues and Other Financing Sources (continued)

USF (Nonexchange) – Carriers conducting interstate telecommunications are required to contribute a portion of their revenues to fund the cost of providing universal service. These contributions represent appropriated dedicated and earmarked receipts and are accounted for as a budgetary financing source. Contributions and related interest totaled \$7,982,384 in FY 2006 and \$7,449,284 in FY 2005.

Receipts and Outlays

In reporting the 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 is reduced. Since money market funds are classified as non-Federal securities, the receipts are obligated and outlaid 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 is also used in the Appropriations Received and Obligations Incurred lines on the SBR and the Resources that Finance the Acquisition of Assets line on the SOF.

Transactions with Related Parties

The Commission has relationships and conducts financial transactions with numerous Federal agencies, most prominently the Treasury. In addition to its Federal relationships, the Commission has a direct relationship with the administrators of those funds that are components under the overall Commission entity. These organizations are USAC, which administers the four USF support mechanisms, National Exchange Carrier Association (NECA) which administers the TRS Fund, and Neustar which administers the NANP. Welch and Company, LLC serves as the Billing and Collection agent for the NANP.

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, 2006 and 2005:

	<u>FY 2006</u>	<u>FY 2005</u>
Intragovernmental:		
Fund Balance with Treasury	\$ 187,221	\$ 1,342,976
Accounts Receivable, Net	<u>4,322</u>	<u>4,996</u>
Total Intragovernmental	191,543	1,347,972
Cash and Other Monetary Assets	3,050,763	749
Accounts Receivable, Net	<u>46,291</u>	<u>20,892</u>
Total Non-entity Assets	3,288,597	1,369,613
Total Entity Assets	<u>6,554,847</u>	<u>6,347,630</u>
Total Assets	<u>\$ 9,843,444</u>	<u>\$ 7,717,243</u>

Non-entity Fund Balance with Treasury primarily represents deposits made towards spectrum auction winning bids. These deposits accounted for \$175,948 in FY 2006 and \$1,337,550 in FY 2005. 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, 2006 and 2005:

September 30, 2006

	Appropriated			
	Funds	Revolving Funds	Deposit Funds	Total
Unobligated Budgetary Resources				
Available	\$ 27,928	\$ 284,142	\$ -	\$ 312,070
Unavailable	27,684	-	187,221	214,905
Obligated Balance not yet Disbursed	79,721	-	-	79,721
Total	<u>\$ 135,333</u>	<u>\$ 284,142</u>	<u>\$ 187,221</u>	<u>\$ 606,696</u>

September 30, 2005

	Appropriated			
	Funds	Revolving Funds	Deposit Funds	Total
Unobligated Budgetary Resources				
Available	\$ 31,234	\$ 67,196	\$ -	\$ 98,430
Unavailable	8,331	-	1,342,976	1,351,307
Obligated Balance not yet Disbursed	73,048	-	-	73,048
Total	<u>\$ 112,613</u>	<u>\$ 67,196</u>	<u>\$ 1,342,976</u>	<u>\$ 1,522,785</u>

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, International Telecommunications Settlement (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, 2006 and 2005:

	<u>FY 2006</u>	<u>FY 2005</u>
Cash and Cash Equivalents	\$ 3,152,377	\$ 57,114

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 2006 Cash and Other Monetary Assets included \$3,050,763 in deposits or 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.

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

Note 5 - Investments

The following summarizes Investments as of September 30, 2006 and 2005:

<u>FY 2006</u>	<u>Cost</u>	<u>Method</u>	Unamortized (Premium) Discount	Investments, <u>Net</u>	Market Value <u>Disclosure</u>
Intragovernmental Securities:					
Marketable Securities:					
Treasury Bills	\$3,285,930	EI	\$ 46,197	\$ 3,332,127	\$3,287,848
Treasury Notes	1,422,545	EI	7,506	1,430,051	1,422,752
Accrued Interest	<u>15,041</u>	NA		<u>15,041</u>	<u>15,041</u>
Total	<u>\$4,723,516</u>			<u>\$ 4,777,219</u>	<u>\$4,725,641</u>

FY 2005

Intragovernmental Securities:

Marketable Securities:

Treasury Bills	\$4,119,760	EI	\$ 17,094	\$ 4,136,854	\$ 4,121,516
Treasury Notes	19,996	EI	4	20,000	19,803
Accrued Interest	<u>189</u>	NA		<u>189</u>	<u>189</u>
Total	<u>\$4,139,945</u>			<u>\$ 4,157,043</u>	<u>\$ 4,141,508</u>

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 23.

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.

Note 6 - Accounts Receivable, Net

The following summarizes Accounts Receivable, Net as of September 30, 2006 and 2005:

	<u>Intragovernmental</u>	<u>Public</u>	<u>Total</u>
<u>FY 2006</u>			
Gross Accounts Receivable	\$ 229,322	\$ 1,630,380	\$ 1,859,702
Allowance for Doubtful Accounts	(-)	(696,437)	(696,437)
Net Accounts Receivable	<u>\$ 229,322</u>	<u>\$ 933,943</u>	<u>\$ 1,163,265</u>
Interest on Delinquent AR	\$ -	\$ 45,856	\$ 45,856
<u>FY 2005</u>			
Gross Accounts Receivable	\$ 4,996	\$ 1,369,248	\$ 1,374,244
Allowance for Doubtful Accounts	(-)	(695,755)	(695,755)
Net Accounts Receivable	<u>\$ 4,996</u>	<u>\$ 673,493</u>	<u>\$ 678,489</u>
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 and 75% allowance is made for all Commitment Adjustment (COMAD) audit receivables. The NAL receivables represent notifications of a forfeiture, subject to final determination. While these receivables are included on the Treasury Report on Receivables at the request of Treasury, the ability to collect these receivables is not determined until a final judgment is issued. Similarly, the COMAD audit receivables represent preliminary audit findings that are subject to appeal by the auditee and are not considered final until the appeals period has lapsed or a final determination has been issued.

	<u>FY 2006</u>			<u>FY 2005</u>		
	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Net</u>	<u>Accounts Receivable</u>	<u>Allowance</u>	<u>Net</u>
USF	\$ 1,289,171	\$ (191,279)	\$ 1,097,892	\$ 843,931	\$ (191,390)	\$ 652,541
COMAD	58,612	(43,959)	14,653	59,981	(59,981)	-
Regulatory Fees	32,866	(18,325)	14,541	24,207	(13,423)	10,784
Spectrum Auction	416,624	(406,325)	10,299	408,969	(402,791)	6,178
Forfeitures	48,692	(29,873)	18,819	24,798	(23,661)	1,137
Other	13,737	(6,676)	7,061	12,358	(4,509)	7,849
Total	<u>\$ 1,859,702</u>	<u>\$ (696,437)</u>	<u>\$ 1,163,265</u>	<u>\$ 1,374,244</u>	<u>\$ (695,755)</u>	<u>\$ 678,489</u>

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 last active loan will mature in FY 2009. The Commission’s installment loan portfolio is tracked under ten cohorts.

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 August 2006 for actual performance data through May 31, 2006 and estimated data from June through September, 2006. The reestimate resulted in a net upward adjustment, including interest on the reestimate, of \$22,444 reported in the FY 2006 financial statements.

Direct Loans

<u>Loan Program</u>	<u>Loans Receivable, Gross</u>	<u>Interest Receivable</u>	<u>Other Receivables</u>	<u>Allowance for Subsidy Cost (Present Value)</u>	<u>Value of Assets Related to Direct Loans</u>
Spectrum Auctions:					
FY 2006 Bal.	\$ 427,581	\$ 33,400	\$ 1,926	\$ (313,486)	\$ 149,421
FY 2005 Bal.	\$ 471,917	\$ 33,989	\$ 1,987	\$ 749,372	\$ 1,257,265

Interest accrued on bankrupt and defaulted loans totaled \$33,230 in FY 2006 and \$33,281 in FY 2005.

Note 7 – Loans Receivable, Net (continued)

Total Amount of Direct Loans Disbursed

No new loans were issued in FY 2006 and 2005.

Subsidy Expense for Direct Loans by Program and Component

1. Direct Loan Modifications and Reestimates:

<u>Loan Program</u>	<u>Modifications</u>	<u>Interest Rate Reestimates</u>	<u>Technical Reestimates</u>	<u>Total Reestimates</u>
Spectrum Auctions				
FY 2006 (Net)	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 11,328</u>	\$ <u> 11,328</u>
FY 2005 (Net)	\$ <u> -</u>	\$ <u> -</u>	\$ <u> (24,501)</u>	\$ <u> (24,501)</u>

Schedule for Reconciling Subsidy Cost Allowance Balances

Beginning Balance of the Subsidy Cost Allowance	<u>FY 2006</u> \$ (749,372)	<u>FY 2005</u> \$ 3,831,651
Adjustments:		
Recoveries	1,083,346	1,027,251
Loans written off	-	(5,470,721)
Subsidy allowance amortization	(42,932)	(113,078)
Other	<u> 11,116</u>	<u> 26</u>
Ending balance before reestimates	302,158	(724,871)
Subsidy reestimates:		
Technical/default reestimate	<u> 11,328</u>	<u> (24,501)</u>
Ending balance of the subsidy cost allowance	<u>\$ 313,486</u>	<u>\$ (749,372)</u>
Administrative Expense	<u>FY 2006</u>	<u>FY 2005</u>
Spectrum Auctions	\$ <u> 5,212</u>	\$ <u> 24,269</u>

Note 8 – Seized and Forfeited Property

The Commission seizes property from illegally operated radio and other communication operations. The property is comprised of radio frequency, audio, and other communications equipment. Forfeited property consists of seized property legally turned over to the Commission. Although seized and forfeited property cannot be sold due to legal restrictions, and is not recognized for financial purposes, the quantity and value of seized and forfeited property is reported below. The property is tracked using the lot number assigned when seized. The following summarizes Seized and Forfeited Property as of September 30, 2006 and 2005:

	FY 2006		FY 2005	
	No. of Lots	Dollar Value	No. of Lots	Dollar Value
<u>Seized Property</u>				
Beginning Balance	38	\$ 88	40	\$ 92
Seized	-	-	2	12
Forfeited	<u>(12)</u>	<u>(14)</u>	<u>(4)</u>	<u>(16)</u>
Ending Balance	<u>26</u>	<u>\$ 74</u>	<u>38</u>	<u>\$ 88</u>

	FY 2006		FY 2005	
	No. of Lots	Dollar Value	No. of Lots	Dollar Value
<u>Forfeited Property</u>				
Beginning Balance	11	\$ 10	14	\$ 10
Forfeited	12	14	4	16
Disposed	<u>(14)</u>	<u>(16)</u>	<u>(7)</u>	<u>(16)</u>
Ending Balance	<u>9</u>	<u>\$ 8</u>	<u>11</u>	<u>\$ 10</u>

Note 9 - General Property, Plant and Equipment, Net

The following summarizes General PP&E as of September 30, 2006 and 2005:

Major Classes	FY 2006			FY 2005			Estimated Useful Life
	Cost	Accum. Deprec.	Net Book Value	Cost	Accum. Deprec.	Net Book Value	
Land	\$ 1,443	\$ -	\$ 1,443	\$ 1,443	\$ -	\$ 1,443	N/A
Buildings	5,493	3,986	1,507	5,493	3,941	1,552	40
Non-Computer Equipment	36,852	33,288	3,564	37,493	32,356	5,137	7
Computer Equipment	34,042	22,929	11,113	28,613	18,694	9,919	5
Vehicle Systems	5,158	3,458	1,700	4,380	3,306	1,074	5
Leasehold Improvements	3,108	881	2,227	3,108	570	2,538	10
ADP Software	66,322	51,581	14,741	45,919	37,420	8,499	3
Software in Development	<u>1,861</u>	<u>-</u>	<u>1,861</u>	<u>21,036</u>	<u>-</u>	<u>21,036</u>	N/A
Total	<u>\$ 154,279</u>	<u>\$ 116,123</u>	<u>\$ 38,156</u>	<u>\$147,485</u>	<u>\$ 96,287</u>	<u>\$ 51,198</u>	

Equipment being held by Commission component entities totaled \$1,560 in FY 2006 and \$2,094 in FY 2005. All asset classes are depreciated on a straight-line basis.

Note 10 - Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources September 30, 2006 and 2005:

	<u>FY 2006</u>	<u>FY 2005</u>
Intragovernmental:		
Other:		
FECA Liability	\$ 403	\$ 457
Other:		
Unfunded Leave	16,941	17,052
Accrued Liabilities for Universal Service	<u>451,860</u>	<u>418,826</u>
Total liabilities not covered by budgetary resources	469,204	436,335
Total liabilities covered by budgetary resources	<u>4,162,519</u>	<u>2,846,682</u>
Total Liabilities	<u>\$ 4,631,723</u>	<u>\$ 3,283,017</u>

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

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

Note 11 - Debt

	FY 2005		FY 2005		FY 2006
	Beginning	Net	Ending	Net	Ending
	<u>Balance</u>	<u>Borrowing</u>	<u>Balance</u>	<u>Borrowing</u>	<u>Balance</u>
Debt to the Treasury	\$ 3,940,764	\$ (2,666,966)	\$ 1,273,798	\$ (824,801)	\$ 448,997

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 12 - Other Liabilities

The following summarizes Other Liabilities as of September 30, 2006 and 2005:

<u>FY 2006</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
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	<u>\$ -</u>	<u>\$ 153,846</u>	<u>\$ 153,846</u>
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	<u>\$ 17,874</u>	<u>\$ 3,710,081</u>	<u>\$ 3,727,955</u>
<u>FY 2005</u>	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental			
Custodial Liability	\$ -	\$ 222,350	\$ 222,350
Other:			
Accrued Payroll	-	1,339	1,339
FECA Liability	-	457	457
Other	-	30	30
Total Other	-	1,826	1,826
Total Intragovernmental	<u>\$ -</u>	<u>\$ 224,176</u>	<u>\$ 224,176</u>
Deferred Revenue	\$ 18,135	\$ 1,167,639	\$ 1,185,774
Prepaid Contributions	-	57,360	57,360
Deposit/ Unapplied Liability	-	5,232	5,232
Accrued Liabilities for Universal Service	-	418,826	418,826
TDA Interest	-	1	1
Other:			
Accrued Payroll	-	7,009	7,009
Unfunded Leave	-	17,052	17,052
Other	-	19,338	19,338
Total Other	-	43,399	43,399
Total Other Public	<u>\$ 18,135</u>	<u>\$ 1,692,457</u>	<u>\$ 1,710,592</u>

Note 12 - Other Liabilities (continued)

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

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

Note 13 - Leases

Operating Leases

The 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 2006 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:

<u>Fiscal Year</u>	<u>Building</u>	<u>Copier</u>	<u>Total</u>
2007	\$ 39,898	\$ 1,419	\$ 41,317
2008	40,780	1,419	42,199
2009	41,684	1,419	43,103
2010	42,608	1,419	44,027
2011	<u>43,348</u>	<u>1,419</u>	<u>44,767</u>
Total Future Lease Payment	<u>\$ 208,318</u>	<u>\$ 7,095</u>	<u>\$215,413</u>

Note 14 - 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 15 – 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 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

Program Costs - FY 2005

Program	Intragovernmental	Public	Total
Broadband	\$ 6,792	\$ 17,900	\$ 24,692
Competition	29,987	6,649,265	6,679,252
Spectrum	316,376	187,141	503,517
Media	8,328	22,105	30,433
Homeland Security	9,765	25,680	35,445
Modernize the FCC	13,023	40,311	53,334
Total	\$ 384,271	\$ 6,942,402	\$ 7,326,673

Program Earned Revenue - FY 2005

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

Note 16 - Apportionment Categories of Obligations Incurred

The following summarizes Apportionment Categories of Obligations Incurred September 30, 2006 and 2005:

	FY 2006		FY 2005	
	<u>Budgetary</u>	<u>Non-Budgetary</u>	<u>Budgetary</u>	<u>Non-Budgetary</u>
Direct				
Category A	\$ 372,116	\$ -	\$ 365,848	\$ -
Category B	142,232	278,958	9,864,270	306,351
Exempt from Apportionment	<u>8,139,024</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Direct	<u>\$ 8,653,372</u>	<u>\$ 278,958</u>	<u>\$10,230,118</u>	<u>\$ 306,351</u>
Reimbursable				
Category A	\$ 1,778	\$ -	\$ 1,359	\$ -
Category B	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Reimbursable	<u>\$ 1,778</u>	<u>\$ -</u>	<u>\$ 1,359</u>	<u>\$ -</u>

Category A – Apportioned by Quarter

Category B – Apportioned by Purpose

Note 17 - 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 or subsidy. The Commission had no borrowing authority at September 30, 2006.

Note 18 - Terms of Borrowing Authority Used

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

Note 19 – 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 20 - 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 2005. The *Budget of the United States Government* with actual numbers for FY 2006 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 <u>2005</u>	President's Budget <u>2005</u>	<u>Difference</u>	
Unobligated Balance, Brought Forward, Oct. 1	\$ 332	\$ 310	\$ 22	A
Recoveries of Prior Year Unpaid Obligations	664	662	2	B
Budget Authority:				
Appropriations Received	9,900	9,900	-	
Borrowing Authority	38	38	-	
Spending Authority From Offsetting Collections	3,397	680	2,717	C
Temporarily Not Available Pursuant to Public Law	(12)	-	(12)	D
Permanently Not Available	<u>(2,708)</u>	<u>-</u>	<u>(2,708)</u>	E
Total Budgetary Resources	<u>11,611</u>	<u>11,590</u>	<u>21</u>	

Status of Budgetary Resources (\$ in millions):

Obligations Incurred	\$ 10,537	\$ 10,537	\$ -	
Unobligated Balances – Available	218	1,053	(835)	F
Unobligated Balances – Not Available	<u>856</u>	<u>-</u>	<u>856</u>	F
Total, Status of Budgetary Resources	<u>11,611</u>	<u>11,590</u>	<u>21</u>	

Change in Obligated Balance (\$ in millions):

Obligated balance, net – Beginning of Period	\$ 3,085	\$ 3,085	\$ -	
Obligations, Incurred net (+/-)	10,537	10,537	-	
Less: Gross Outlays	9,695	9,695	-	
Less: Recoveries of PY unpaid obligations, actual	<u>664</u>	<u>662</u>	<u>2</u>	B
Change in Uncollected Customer Payments From				
Obligated Balance, net, End of Period (calculated)	<u>3,263</u>	<u>3,265</u>	<u>(2)</u>	

Net Outlays (\$ in millions):

Gross Outlays	\$ 9,695	\$ 9,695	-	
Less: Offsetting Collections	3,397	3,397	-	
Less: Distributed Offsetting Receipts	<u>25</u>	<u>25</u>	<u>-</u>	
Net Outlays	<u>\$ 6,273</u>	<u>\$ 6,273</u>	<u>\$ -</u>	

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

A – The President's Budget (the Budget) excludes \$22 million in unobligated balances - unavailable because the funds are not available for use.

B – The Budget does not include \$2 million of recoveries in single year appropriations because the funds are expired and not available for use.

C – The President's Budget recognizes the temporary reduction in authority related to FY 2004 excess regulatory fees of \$12 million as a reduction to offsetting collections while the SBR reflects this amount on a separate line. The remaining \$2,705 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 – See explanation for excess regulatory fees under C.

E – The Budget does not include cancelled and other returned authority of \$3 million and reflects the Debt repayment to Treasury of \$2,705 million as part of offsetting collections (see explanation C).

F – The unapportioned balances for the USF and the Financing Account, \$768 and \$67 respectively, are reflected in the SBR as “not available while the Budget reflects these funds as available.” These funds do become available to the Commission at the start of each fiscal year. These funds account for all of the available variance and \$835 of the not available variance. The remaining \$21 is accounted for by the combination of explanation A through E above.

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

Two amounts are shown in Note 10 as not covered by budgetary resources: FECA Liability and Unfunded Leave. The changes in both of these balances between FY 2006 and FY 2005 are reflected as part of Components Requiring or Generating Resources in Future Periods on the Statement of Financing. The decrease in unfunded leave of \$111 is included in the increase in Annual Leave line on the Statement of Financing, and the decrease in FECA Liability of \$54 is included as part of the Resources that fund expenses recognized in prior periods line item.

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

The Commission collects application fees to cover the cost of processing license applications. The Commission reports the revenue associated with these fees as a revenue source on its Statement of Net Cost, but does not retain the fees. Additionally, the Commission collected \$10,000 in off-setting collections in FY 2006 at the request of Congress which has been recorded in the same receipt account with application fees. To reflect the transfer of these fees to the Treasury, the Commission recognizes a transfer out on the Statement of Changes in Net Position. The amount of \$32,233 included in the Offsetting Receipts line on the Statement of Financing is the total transferred for FY 2006.

Note 23 – Earmarked Funds

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

The following summarizes the significant assets, liabilities, and related costs incurred with managing the USF Program.

	Total Earmarked Funds
Balance Sheet as of September 30, 2006	
ASSETS	
Investments	\$ 4,723,516
Cash and Other Monetary Assets	96,203
Accounts Receivable, net	1,120,982
General Property, Plant, and Equipment, net	1,540
Other Assets	10,013
Total Assets	<u>\$ 5,952,254</u>
Accounts Payable	\$ 294,116
Deferred Revenue	30,920
Prepaid Contributions	63,357
Accrued Liabilities	451,860
Total Liabilities	<u>\$ 840,253</u>
Unexpended Appropriations	\$ -
Cumulative Results of Operations	<u>5,112,001</u>
Total Liabilities and Net Position	<u>\$ 5,952,254</u>
Statement of Net Cost For the Period Ended September 30, 2006	
Gross Program Costs	\$ 7,147,210
Less Earned Revenues	-
Net Cost of Operations	<u>\$ 7,147,210</u>
Statement of Changes in Net Position For the Period Ended September 30, 2006	
Net Position Beginning of Period	\$ 4,276,827
Non-Exchange Revenue	7,982,384
Other Financing Sources	-
Net Cost of Operations	<u>7,147,210</u>
Change in Net Position	835,174
Net Position End of Period	<u>\$ 5,112,001</u>

Note 23 – Earmarked Funds (continued)

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

Note 24 – Change in Accounting Principles

In FY 2006 the Commission adopted a change in the method it uses to account for expenditures against Salaries & Expenses (S&E) funding. The S&E funding represents a combination of offsetting collections and congressional appropriations. In previous years, the Commission has recognized expenses incurred in its S&E fund as coming first from offsetting collections and second from appropriations. This accounting treatment was elected because unexpended S&E funds were recorded under a single year Treasury Account Fund Symbol and were cancelled and returned at the end of the fifth year after availability. To mirror the cancellation process which is generally associated with appropriations, the Commission elected to spend against appropriations last so that the cancellation of funding was against appropriations.

Since the adoption of the initial accounting method, the portion of Commission operations funded by offsetting collections has grown to the point where only a net of \$1,000 in appropriations is received by the Commission annually. Additionally, offsetting collections represents funding that remains available to the Commission until expended. Given these factors, it was preferable to the Commission to change its method of accounting to reverse the order in which it applies funding so that funding would come first from appropriations and then from offsetting collections.

The change has a beginning balance impact of \$9,886 on the following balances:

Statement of Changes in Net Position:

	<u>Before</u>	<u>After</u>
Unexpended Appropriations	\$ 24,617	\$ 14,731
Cumulative Results of Operations	\$ 4,409,609	\$ 4,419,495

Note 25 – Custodial Fines and Penalties Collections

The unusual increase in Fines and Penalties cash collections resulted from the collection of a single settlement payment totaling \$94,866.

Note 26 – Comparability of the Statements

Balance Sheet

The Commission listed TDA Interest as a separate line on the face of the Consolidated Balance Sheet, since it was a material balance in FY 2006. For comparability purposes the amount was broken out of Other Liabilities for FY 2005.

Note 26 – Comparability of the Statements (continued)

Statement of Budgetary Resources

The presentation used for the Statement of Budgetary Resources (SBR) prior to FY 2006 has been revised to reflect a new format required pursuant to the OMB Circular A-136, “*Financial Reporting Requirements*.” Circular A-136 requires agencies to present both the FY 2006 and 2005 SBR in the same format. Accordingly, certain reclassifications were made to the previously issued FY 2005 SBR to conform to the new format.

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REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION - DEFERRED MAINTENANCE

As of September 30, 2006

(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 2006 is \$1,413.

REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2006
(Dollars in thousands)

STATEMENT OF BUDGETARY RESOURCES

The Office of Management and Budget (OMB) Bulletin No. 01-09, *Form and Content of Federal Agency Financial Statements*, 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, 2006 Combined Statement of Budgetary Resources.

FY2006	<u>S&E</u>	<u>Credit</u>	<u>Auctions</u>	<u>USF</u>	<u>Total</u>
Budgetary Resources:					
Unobligated balances - brought forward, October 1:	\$ 18,805	\$ 72,145	\$ 3,798	\$ 978,815	\$ 1,073,563
Recoveries of prior year unpaid obligations	3,595	1	917	\$ 950,444	954,957
Budget authority:	312,179	1,648,945	84,999	8,160,463	10,206,586
Temporarily not available pursuant to Public Law	(25,300)	-	-	-	(25,300)
Permanently not available	(258)	(1,007,860)	(2,428)	-	(1,010,546)
Total budgetary resources	<u>\$ 309,021</u>	<u>\$ 713,231</u>	<u>\$ 87,286</u>	<u>\$ 10,089,722</u>	<u>\$ 11,199,260</u>
Status of Budgetary Resources:					
Obligations incurred	\$ 288,838	\$ 421,090	\$ 85,156	\$ 8,139,024	\$ 8,934,108
Unobligated balances - available	10,751	8,186	194	136,154	155,285
Unobligated balances - not available	9,432	283,955	1,936	1,814,544	2,109,867
Total, status of budgetary resources	<u>\$ 309,021</u>	<u>\$ 713,231</u>	<u>\$ 87,286</u>	<u>\$ 10,089,722</u>	<u>\$ 11,199,260</u>
Change in Obligated Balance:					
Obligated balance, net	\$ 33,010	\$ 10,553	\$ 29,484	\$ 3,192,072	\$ 3,265,119
Obligations incurred, net	288,837	421,090	85,157	8,139,024	8,934,108
Less: Gross outlays	278,847	421,165	83,856	7,561,774	8,345,642
Less: Recoveries of prior year unpaid obligations, actual	3,595	1	917	950,444	954,957
Change in uncollected customer payments from					
Federal sources	(31)	-	-	-	(31)
Obligated balance, net, end of period	<u>39,376</u>	<u>10,476</u>	<u>29,868</u>	<u>2,818,876</u>	<u>2,898,596</u>
Net Outlays					
Gross outlays	\$ 278,847	\$ 421,165	\$ 83,856	\$ 7,561,774	\$ 8,345,642
Less: offsetting collections	299,146	1,320,706	85,000	-	1,704,852
Less: distributed offsetting receipts	32,233	-	-	-	32,233
Net outlays	<u>\$ (52,532)</u>	<u>\$ (899,541)</u>	<u>\$ (1,144)</u>	<u>\$ 7,561,774</u>	<u>\$ 6,608,557</u>



Independent Auditor's Report

To the Inspector General of the
Federal Communications Commission

We have audited the accompanying consolidated balance sheets of the Federal Communications Commission (FCC) as of September 30, 2006 (fiscal year 2006) and 2005 (fiscal year 2005), and the related consolidated statements of net cost, changes in net position, financing, and combined statements of budgetary resources, and custodial activity 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.

Except as explained in the following paragraph, 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 Office of Management and Budget (OMB) Bulletin No. 06-03, *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.

The scope of our examination in fiscal year 2005 was limited because the FCC could not provide a representation letter signed by management who, in the auditor's view, is responsible for and knowledgeable, directly or through others, about the matters in the representation letter. As a result, we did not obtain sufficient, competent, evidential matter for applying audit procedures necessary to conduct an audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* and OMB Bulletin No. 06-03.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the FCC's consolidated financial statements for the fiscal year ended September 30, 2005.

Centropark I
4041 Powder Mill Road, Suite 410
Cabineto, Maryland 20705-3106
tel: 301-931-2050
fax: 301-931-1710
www.cliftoncpa.com

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In our opinion, the consolidated financial statements for fiscal year 2006 present fairly, in all material respects, the financial position of the FCC as of September 30, 2006, and the related statements of net costs, changes in net position, budgetary resources, custodial activity, and reconciliation of net costs to budgetary obligations, for the year 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 1, 2006 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Discussion and Analysis required supplementary information and other accompanying information contain a wide range of data, some of which is not directly related to the financial statements. We do not express an opinion on this information. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with the FCC officials. Based on this limited work, we found no material inconsistencies with the financial statements or nonconformance with OMB guidance.

Clifton Gunderson LLP

Calverton, Maryland
November 1, 2006



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, 2006, and have issued our report thereon dated November 1, 2006. 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 06-03, *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. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the FCC.

The results of our tests of compliance with laws and regulations described in the preceding paragraph, disclosed instances of non-compliance with the following laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*, which are described below.

OMB Circular No. A-127, *Financial Management Systems*

OMB Circular No. A-127 prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems. The policies and standards include the following areas:

- Integrated Financial Management System.
- Application of the Standard General Ledger at the Transaction Level.
- Federal Accounting Standards.
- Financial Reporting.

Centerpark I
4041 Powder Mill Road, Suite 410
Cabineto, Maryland 20705-3106
tel: 301-931-2050
fax: 301-931-1710

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- Budget Reporting.
- Functional Requirements.
- Computer Security Requirements .
- Documentation, Internal controls, training and user support and maintenance.

In fiscal 2006, as in prior years, the FCC did not fully meet the above criteria as explained in more detail in our Independent Auditor's Report on Internal Control (IC Report). The key items we identified include:

- The FCC reporting components' financial management systems do not fully comply with the requirement of the standard general ledger to record activity at the transaction level.
- 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 reviews of financial management systems conducted by the FCC did not fully comply with the requirements of Section 7 of the OMB Circular No. A-127, Financial Management Systems Requirements, to determine whether they meet the functional requirements established by OMB's Office of Federal Financial Management (OFFM).

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

Between 1993 and 1995, the FCC offered special financing arrangements to assist small entrepreneurs to obtain licenses. The Narrowband Personal Communication Services licensees were allowed to make installment payments on the remaining balance of their licenses over a 10-year period after an initial 20% down-payment. These installment payments were not reported under the Federal Credit Reform Act until Fiscal Year 1997 when OMB advised FCC to report these installments payments as "direct loans." A direct loan is defined in Sec. 502 of the Federal Credit Reform Act as a disbursement of funds by the Government to a non-Federal borrower under a contract that requires repayment of such funds with or without interest. These Narrowband licenses did not have installment payment plan notes stating the loan amounts and terms at origination. In addition, security agreements were not issued by the FCC for this block of loans. The total outstanding balance for these loans was \$78 million as of June 30, 2006. There have been no new Narrowband loans issued since at least fiscal year 1997.

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

Debt Collection Improvement Act of 1996 (DCIA)

In accordance with the *Debt Collection Improvement Act of 1996*, 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, 2006, disclosed that no amounts have been referred for off-set and only \$9.8 million of the \$92.9 million of receivables was referred to the Department of the Treasury for cross-servicing. Further, the FCC did not perform an annual computer match of their delinquent debts with records of Federal employees as required by the DCIA. See IC Report, Section VI, for a more detailed explanation.

We also noted certain immaterial instances of noncompliance that we have reported to management of FCC in a separate letter dated November 1, 2006.

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.

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 1, 2006



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, 2006 and have issued our report thereon dated November 1, 2006. 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 06-03, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audit, we considered the FCC's internal control over financial reporting by obtaining an understanding of the FCC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 06-03, *Audit Requirements for Federal Financial Statements*. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act* (FMFIA) (31 U.S.C. 3512), such as those controls relevant to ensuring efficient operations. The objective of our engagement was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

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

Centropark I
4041 Powder Mill Road, Suite 410
Cabineto, Maryland 20705-3106
tel: 301-931-2050
fax: 301-931-1710
www.cliftoncpa.com

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

Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. However, we noted certain matters discussed in the following paragraphs involving the internal control and its operation that we consider to be reportable conditions. However, none of the reportable conditions are believed to be material weaknesses.

Finally, with respect to internal control related to performance measures reported in the FCC's Performance and Accountability Report, as of September 30, 2006, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 06-03. 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.

REPORTABLE CONDITIONS

I. Financial Reporting

During the fiscal year 2006, the FCC management made substantial progress in strengthening controls over financial reporting and the information technology processes. Some of the key initiatives include detailing a number of management personnel to address various personnel shortages in key operations within the Office of the Managing Director, and the establishment of a taskforce to address prior audit findings. However, a number of conditions continue to exist:

A. Integrated Financial Management Systems

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

The OMB, Office of Federal Financial Management's (OFFM), formerly the Joint Financial Management Improvement Program (JFMIP), publication on "Core Financial System Requirements", lists the following integrated financial management system attributes:

- o Standard data classifications (definition and formats) established and used for recording financial events.
- o Common processes used for processing similar kinds of transactions.

- o Internal controls over data entry, transaction processing, and reporting applied consistently.
- o A system design that eliminates unnecessary duplication of transaction entry.

We identified the following:

The FCC's Core Financial System

The FCC utilizes Federal Financial System (FFS) as its general ledger and core financial management system. This system is not an integrated financial management system as defined by OMB Circular A-127. Software applications such as Revenue Accounting and Management Information System (RAMIS), the property management system, license databases, and various spreadsheets (for International Telecommunication Services (ITS) transactions and auction transactions) were independent systems, not integrated with the FFS.

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

Recommendation:

1. Ensure the integration of the overall financial management systems.

Contractor Loan Servicing Database

The design of the FCC's contractor loan servicing database is based on functional requirements established in the contract with the FCC. However, the contract, and consequently the system, did not include certain functional requirements for direct loan systems as required by the OFFM. Therefore, the loan-servicing database is not fully compliant with OFFM requirements.

Recommendation:

2. 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.

USF Standard General Ledger

On October 3, 2003, the FCC released an order that requires the administrators of the USF and TRS funds to prepare financial statements for the funds that are consistent with generally accepted accounting principles for Federal entities (Federal GAAP) and to keep accounts for the funds in accordance with the the United States Standard General Ledger (USSGL).

In fiscal year 2006, the administrator of the Universal Service Fund (USF) continued to account for the USF with a non-government general ledger system. Our audit disclosed that the account numbers did not fully comply with the United States Standard General Ledger (USSGL) accounts structure. During the compilation of the interim financial statements as of June 30, 2006, the FCC had to map USF account numbers to specified USSGL accounts. Further, the investment activities were not integrated into the general ledger system. Entries are posted manually every month at the summary level. The USF administrator indicated that plans are in place to replace the existing system in 2008 because it lacks the functionality required to comply with the USSGL.

USF Subsidiary Systems

In the prior year, the Commitment Adjustment (COMAD) transactions were tracked in a separate sub-ledger due to the inability of the USF general ledger system to handle multiple sub-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). In fiscal year 2006, the USF administrator continues to track COMAD and accounts payable transactions on a separate spreadsheet (sub-ledger); not interfaced with the general ledger system.

Recommendation:

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

B. Federal Financial System Setup and Posting Model

In fiscal year 2006, the FCC continued to use FFS system setup and posting model definitions that were not completely updated. Our audit identified instances in which the approved USSGL account definitions did not agree with the accounts used on the FCC trial balance. Also, the FCC continued to use outdated posting models for the auction and ITS transactions. For instance, the related incorrect postings aggregated for the auction transaction was \$172 million. The outdated definitions continued to require corrections to the transaction postings through monthly journal vouchers. The incorrect posting model definitions resulted in non-compliance with Treasury's USSGL Accounting Transactions when recording and classifying some transactions.

This system deficiency may continue to impair the quality and reliability of the ITS and the auction financial management information.

Recommendation:

4. 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.

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

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

In Fiscal Year 2006, as in prior years, our audit identified significant differences between third quarter FACTS II account balances and the balances reported on the FCC's third quarter financial statements. The differences occurred because the incorrect version of the financial statement was used for the FACTS II submission.

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

Recommendation:

5. Implement effective quality control procedures to ensure that external reports are reviewed prior to submission.

D. Auction Transactions

Although the flow of communication and auction documentation between the Wireless Telecommunications Bureau (WTB) and the Auction Accounting Group (AAG), an office within the Financial Operations Center (FOC), has improved significantly in FY 2006, the FCC has not formalized the communication, coordination and reporting practices into written policies and procedures. The WTB is the primary source of substantial activities on auctions and licensing that trigger accounting transactions to be acted upon by the FOC. The Lack of formal policies and procedures on a significant FCC operation increases the risk of noncompliance, misunderstanding, or confusion, ultimately impacting the financial statements.

Also, management did not 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. Because auctioning licenses is a significant FCC operation, it is essential that information about the current status of a license and its history be easily accessible, providing bureaus and offices with the ability to update and share both financial and non-financial information.

Recommendations:

6. Issue written policies and procedures within the WTB outlining responsible offices, authority, responsibilities, timelines, and others to ensure that all auction and licensing activities with financial impact are reported to FOC for timely and proper recording.
7. 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.

E. Spreadsheet Subsidiary Ledger System

As noted above, the FCC and USF use a number of spreadsheet based systems for its accounting applications. For example, the FCC's management decided not to implement the RAMIS Auction Accounting and the ITS modules in FY 2005 because the modules were deemed unusable and unreliable. A spreadsheet subsidiary ledger system therefore continued to support auctions activity in Fiscal Year 2006 and will remain in place until a new core financial system is selected and implemented. These spreadsheets support the flow of transactions throughout the year. In FY 2006, the FCC implemented controls over the spreadsheet applications to ensure that changes are reviewed and authorized, and that formula cells are protected.

Although the controls that were instituted improved the controls over the use of the spreadsheets, the inherent risks and limitations noted below associated with a spreadsheet-based application in a complex accounting operation remain.

- Substantial manual intervention, thereby increasing the risks of human errors.
- Formulas can be changed easily, affecting the flow through the rest of the spreadsheets.
- Difficulty in tracking changes made to spreadsheets, including formula changes.
- Difficulty in verifying change controls and that error correction changes were made.
- Unique transactions are difficult to incorporate.
- Difficulty in performing automatic checks and balances on the transactions in the spreadsheets.

- Delay in recording transactions in the general ledger.
- Increase in the use of journal vouchers as a means of posting transactions to the general ledger.

Recommendation:

8. Evaluate existing spreadsheet applications and determine ways to reduce the number of spreadsheets involved in the financial reporting process.

II. Component Entities' Financial Reporting Controls

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

OMB Circular No. A-136, *Financial Reporting Requirements*, states "When the reporting entities of which these components are a part, issue consolidated or consolidating statements that 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 USF and TRS to prepare financial statements consistent with generally accepted accounting principles for Federal entities and to account for the funds in accordance with USSGL.

We identified the following two areas needing improvement:

A. Policies and Procedures:

Policies and procedures supporting key activities either did not exist for most or part of the year and are still in draft. Those identified include:

- Policies and procedures for following up on weaknesses noted in other reports, such as the SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*.
- Policies and procedures to support the establishment of accounts payable when Service Provider (SP) invoices are reviewed and approved by USAC.
- Policies and procedures established for recording budgetary transaction for TRS activities.

Lack of policies and procedures for key activities could create confusion and misunderstanding, thus increasing the risk that transactions are not recorded promptly and properly, and subsequently affecting the reliability of financial information.

Recommendation:

9. Finalize all financial policies and procedures still in draft starting with those listed above.

B. Recording and Reconciling Activity:

- USF's chart of accounts is not consistent with the USSGL. The accounting structure used for recording USF transactions are not in a manner consistent with the USSGL. For example, USAC uses Account #113000-20 for Cash invest-SLD-SLD while the corresponding USSGL account that should have been used is 1130: Funds Held by the Public. The accounts are subsequently cross-walked to USSGL accounts at the time the financial statements are prepared.
- Budgetary transactions are not recorded to the appropriate general ledger accounts on a timely basis. Instead, transactions are captured on subsidiary ledger spreadsheets and, on a monthly basis; the appropriate adjustments are made to the general ledger.

Not recording or a delay in recording of transactions diminishes the value of financial management reports for decision-making purposes. GAO's *Standards for Internal Control in the Federal Government* states "Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions."

Recommendation:

10. Ensure implementation of the USSGL posting model and recording at the transaction level.

III. Tighten FCC Oversight of the Components Entities' Activities

The FCC has the ultimate oversight of the reporting components' financial accounting activities. In many instances, the reporting components consult with the FCC or obtain the FCC's written approval, concurrence, or direction before implementing critical accounting issues; wherein some of these issues may impact on program policies. In Fiscal Year 2006, we noted certain significant accounting transactions issues mentioned below, affecting the reporting components that have not been acted upon by the FCC.

A. Title to Monetary Assets and Investments

Title to USF cash and other monetary assets, and investment accounts maintained at three different banks are held directly in the name of the USF administrator without identifying the fiduciary relationship of the administrator, and not showing any indication that the accounts are the property of the USF. Also, North American Numbering Plan (NANP)'s cash and other monetary assets maintained at the billing and collection fund administrator's bank lock box were held in the administrator's name, without reference to the custodial relationship of the administrator.

Recommendation:

11. 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.

B. Controls Over Compliance with Laws and Regulations

The report titled *Evaluation of Federal Financial Requirement* prepared by an independent accountant dated July 15, 2005 confirmed the applicability of certain federal laws and regulations to USF relating to financial management and identified several non-compliances with these laws and regulations. The laws and regulations include OMB Circular A-127 *Federal Managers Financial Integrity Act (FMFIA)*, OMB Circular A-123 and the Prompt Payment Act (PPA). The USF administrators have indicated that non compliance with the OMB Circulars are mainly due to a system limitation that will be addressed when a new financial system is implemented in 2008. On the applicability of the PPA to USF, the FCC guidance was not received by USAC until October 2nd 2006. In that guidance, the FCC concluded that the PPA does not apply to USF.

Recommendation:

12. The FCC's management should provide timely guidance to the USF administrators when consulted on matters to enhance fund management controls and compliance capability.

C. Collateral for TRS Cash

The TRS fund administrator did not have a collateral agreement with the FCC's lock box bank on behalf of USF to provide coverage for deposits in excess of Federal Deposit Insurance Corporation (FDIC) insured amount of \$100,000. The Treasury Financial Manual 2-3400, *Accounting for and Reporting on Cash and Investments Held Outside of the U.S. Treasury*, states that "the Federal Government's interest in cash and investments held outside of Treasury accounts further extends to requiring that the deposits be made by Federal agencies in non-Treasury bank accounts be secured by collateral to the extent that the deposits exceed the protection covered by the FDIC." We were informed during

the audit that TRS management is in the process of obtaining a collateral agreement with the lock box bank.

The Federal Government's interest in cash and investments held outside of Treasury accounts may be at risk since the excess deposits exceed the protection covered by the FDIC.

Recommendation:

13. 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.

D. Accounts Receivable Reconciliation

The FCC does not perform a reconciliation of the accounts receivable (AR) balances transferred from USF to the FCC for purposes of referring accounts to Treasury covered by the Debt Collections Improvement Act (DCIA).

The AR balance transferred to the FCC as of June 30, 2006 per the FCC AR sub-ledger was \$84,923,693 while the corresponding amount per USF AR Sub-ledger amounted to \$87,707,965. Based on the reconciliation provided by the component entity, we noted that the FCC did not record material transactions communicated to them as of June 30, 2006. These include:

• Unrecorded balance transferred to the FCC	\$ (7,146,113)
• Unrecorded balance transfer reversal	\$ 11,502,429
• COMMAD Transferred not recorded by the FCC	\$ (1,060,461)
• The FCC duplicated balance transferred by USAC	\$ 285,294
• RAMIS balance includes lawsuit balances not on USF report	\$ 3,316,005

Lack of prompt and periodic reconciliation may result in misstatement of the account balance on the quarterly 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."

Recommendation:

14. Perform periodic reconciliation (preferably monthly but at least quarterly) of the accounts receivable transferred from the USF to the FCC.

IV. Cost Accounting

A. Minimum Level of Cost Accounting

FCC has defined its responsibility segments for financial reporting purposes. However, for the consolidated financial statements, which include the component entities, the defined responsibility segment is not adequate to cover the component entities, individually regarded as responsibility segments. Also, documentation provided does not indicate that the FCC has determined the output relating to the responsibility segments, nor has it calculated the related output costs for those responsibility segments as part of its cost allocation methodology.

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

Recommendation:

15. Enhance Budget Execution and Management System (BEAMS) functionality to satisfy the minimum level of cost accounting required in a managerial cost accounting system as required by SFFAS No. 4.
16. Define outputs produced by the responsibility segments and incorporate the definition into the Statement of Net Costs allocation methodology.

B. Matching Revenue to Cost

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

Recommendation:

17. 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.

V. Payroll and Personnel Activities

GAO's *Standards for Internal Control* states "transactions should be accurately recorded in a timely manner". One of the control activities used to accomplish this goal requires the performance of reconciliations and having controls in place to detect errors.

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

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

Management explained that the NFC System has a cumbersome duplicative process that allows for two sets of leave balances. This is an inherent problem with the NFC system. Hence, until NFC modifies their system (which is not in the foreseeable future) or unless the FCC spends considerable funds to migrate to a different payroll/personnel provider, the problem of leave discrepancies will not be resolved.

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

The FCC's new time and attendance system, STARweb is not configured to reject invalid project codes; therefore, an incorrect project code is accepted into the NFC payroll system.

Recommendations:

18. Increase the NFC and the FCC system reconciliation procedures to include all leave categories.
19. Ensure that timekeepers perform monthly reconciliation of time and attendance report errors generated from the FCC's desktop payroll reconciliation system.
20. Enhance the LES system capabilities to reject incorrect project codes from being entered in the system in the first place.
21. Issue guidance to establish timeframes for employees to correct invalid project code errors.
22. Provide the FCC contact person at NFC a listing of uncorrected project codes monthly.

VI. Debt Collection Improvement Act

The *Debt Collection Improvement Act of 1996* (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.

Our review of the Treasury Report on Receivables (TROR) as of June 30, 2006, disclosed that no amounts of administrative receivables had been referred to Treasury for offset, and only \$ 9.8 million of eligible administrative receivables out of a total of \$ 92.9 million had been referred for cross-servicing. This issue has been reported in prior years.

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

The lack of referral of all delinquent debt to Treasury or the non-assessment of interest, penalties, or administrative fees on delinquent debts results in noncompliance with the DCIA.

Recommendations:

23. Refer all eligible delinquent debt more than 180 days old to the Treasury for offset or timely cross servicing.
24. 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.

VII. 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 memorandum of understanding and/or interconnection security agreements are in place. These deficiencies in security controls decrease the FCC's ability to protect its sensitive or critical resources. Specifically, deficiencies include the following:

- One of FCC's security manuals has expired. The FCC has not issued a new directive to replace the expired security directive 1131.1.
- 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.
- We noted that one of the FCC's major financial applications had control weaknesses associated with the enforcement of the "principle of least privilege", which allowed some users inappropriate access to "override" privileges.
- The FCC has not enforced a program for the periodic recertification of users' access to its major applications.
- The FCC's re-certification of the contractor loan servicing system was incomplete and did not uncover certain weaknesses that the contractor knew about.
- One of the FCC's major financial system applications has had significant changes to its operating environment. Both the operating system and the database system have been changed. The financial application was put into production before the certification and accreditation was completed as required by FCC Directive 1479.2.
- Logical access is not always promptly revoked after the separation of employees and contractors.
- The FCC does not have signed Memorandum of Understanding and/or Interconnection Security Agreements (ISA) for all major external entities that the FCC shares data with, or whose systems are interconnected with the FCC systems.
- The FCC did not certify and accredit a major application before authorizing it to operate.
- Security weaknesses were noted in an operating system that supports some of the FCC's major applications.
- The FCC does not require and/or maintain access authorization forms for its major applications to ensure that appropriate level of access is granted based on job function.

Recommendations:

25. Issue a new directive to replace the expired security directive 1131.1.
26. Ensure that transmission of all sensitive data to and from the FCC's contractors and business partners is protected and encrypted.

27. Ensure that the "principle of least privilege" is adequately enforced across all major applications and general support systems.
28. 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.
29. Ensure that the recertification process for all systems (including contractors) is thorough and complete.
30. 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.
31. Implement procedures to ensure the prompt revocation of access to the FCC resources at the effective date of termination of employees and contractors.
32. 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.
33. Ensure that all new major applications are certified and accredited before being placed in to production.
34. Ensure that security weaknesses noted in a major operating system is addressed and that a comprehensive security review is conducted.
35. Maintain access authorization forms for all major applications to ensure that appropriate level of access is granted based on job function.

STATUS OF PRIOR YEAR COMMENTS

As required by *Government Auditing Standards* and OMB Bulletin No. 06-03, we have reviewed the status of FCC's corrective actions with respect to the findings and recommendations from the previous year's report on internal controls. Details of the status of the recommendations are reported as Appendix A to this report.

In addition to the reportable conditions described above, we noted certain matters involving internal control and its operation that we reported to the management of FCC in a separate letter dated November 1, 2006.

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

Clifton Gunderson LLP

Calverton, Maryland
November 1, 2006

APPENDIX A
FEDERAL COMMUNICATIONS COMMISSION
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
September 30, 2006

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
Material Weaknesses			
I. Control Environment Changes			
1	Control Environment Changes	FCC Order 04-163 was intended to publicly clarify the office responsible for all of FCC's financial activities, including those of the component entities. The Chairman, as the Chief Executive Officer of the FCC should assess the need and role of his office to participate in the day-to-day financial activities of the agency rather than the Managing Director, and determine if the order should be rescinded and replaced with one that fits the results of his assessment, clarifying any future confusion and strengthening the control environment by aligning the roles and functions with the appropriate activities.	Closed
2	Control Environment Changes	To clarify and strengthen the Office of the Chairman-delegated roles, the Chairman should issue explicit and agency-wide (or publicly available) delegations of authority for individuals instructed or asked to represent his office, even if that delegation is one of a temporary nature.	Closed
3	Control Environment Changes	Because financial reporting is mandated and must be complete at a time-definite, management should ensure that it meets all delivery timeframes, external and internal, to ensure effective and efficient use of agency resources, and to achieve	Closed

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September 30, 2006

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
4	Control Environment Changes	To protect the agency from compromising its requirement to support the independence of the Office of Inspector General, senior management, including OCM, should become acquainted with the Inspectors General Act, its purpose, and become more familiar with the Inspector General's role and responsibilities to the agency, that is, if it has not already done so.	Closed
II. Component Entities' Financial Reporting Controls			
5	A. Control Over Budgetary Transactions	Ensure that the financial policies and procedures are finalized and include, among others, monthly reconciliation of budgetary and proprietary accounts, consistent application of budgetary transactions, and follow-up procedures on weaknesses identified in reports issued by its service organizations.	Open: Now a reportable condition
6	A. Control Over Budgetary Transactions	Ensure the component entities' full implementation of the USSGL posting model at the transaction level.	Open: Now a reportable condition
7	A. Control Over Budgetary Transactions	Design the Pre-Petition Bankruptcy accounts receivable sub ledger to report the net receivable amount from each Filer ID.	Closed

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September 30, 2006

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
8	A. Control Over Budgetary Transactions	Finalize and consistently implement the FCC policies and procedures related to the reporting components' financial reporting, compilation, and review process to include review procedures that will assess and assure data integrity, completeness, existence, quality and reliability of the financial data.	Open: Now a reportable condition
9	A. Control Over Budgetary Transactions	Institute a methodology to record the correct receivable amount at the time of recognition instead of recording duplicate receivables and correcting the entry at a later time.	Open: Now a reportable condition
10	A. Control Over Budgetary Transactions	Develop a subsidiary ledger for USF account payable details to support the reported balances.	Open: Now a reportable condition
11	A. Control Over Budgetary Transactions	Require the administrator of TRS to obtain an accountant with related experience to take responsibility for TRS accounts and compile consolidating TRS financial data into GAAP financial statements.	Open: Now a reportable condition
12	B. Universal Service Fund Commitments	The USF administrator should establish written policies and procedures, and implement internal controls to ensure completeness, existence, and proper valuation of the commitment letter amounts.	Closed

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September 30, 2006

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
13	B. Universal Service Fund Commitments	To support future [audit] representations, the FCC in coordination with USF administrator should verify and validate commitment letter balances, activity, and transactions as of September 30, 2005, no later than the second quarter of fiscal year 2006 to determine if the balances are fairly materially stated in accordance with generally accepted accounting principles.	Closed
14	B. Universal Service Fund Commitments	Establish a cross-bureau and cross-entirety task force to address the USF commitment and obligations issue. The task force should be similar in scope and approach as the Spectrum Auction Loan Servicing Activity task force that was used to address the material issues related to FCC spectrum auction loans.	Closed
15	C. Timelines of Transactions Entry and Reconciliation	Implement procedures to ensure that the reporting components' unadjusted balances are reconciled and supported with appropriate roll-forward analysis.	Open: Now a reportable condition
16	C. Timelines of Transactions Entry and Reconciliation	Ensure that the reporting components received and understood the year-end adjusting entries which should be promptly recorded on their books.	Open: Now a reportable condition

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Recommendation No.	Condition/Audit Area	Recommendation	Current Status
17	C. Timelines of Transactions Entry and Reconciliation	Improve quality control reviews of audit schedules to ensure material differences are identified and closed timely.	Open: Now a reportable condition
18	D. Control Over USF Investment Transactions	Review the reasonableness and accuracy of the bank investment reports before recording them in the books and submitting the financial information to FCC.	Closed
19	D. Control Over USF Investment Transactions	Modify the existing template used for calculating unamortized discounts and premiums to ensure correctness of the calculations.	Closed
20	D. Control Over USF Investment Transactions	Ensure all accounts are properly classified in the financial statements.	Closed
21	E. Controls Over Compliance with Laws and Regulations	Implement appropriate corrective action plan to address the recommendations contained in the report.	Open: Now a reportable condition
III. Auction Transactions			
22	A. Auction Revenue and Receivables	Issue a directive for WTB to ensure that all auction and licensing activities with financial impact are reported to FOC for timely and proper recording.	Open: Now a reportable condition

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FEDERAL COMMUNICATIONS COMMISSION
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September 30, 2006

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
23	A. Auction Revenue and Receivables	Establish a database for WTB that is capable of being linked or interfaced with the core financial system to create an audit trail and record of delinquent winning bidders whose licenses were cancelled and then re-auctioned, including the amounts collected or received from the re-auction. Until this database becomes operational, FCC should create and maintain a comprehensive schedule that will provide this information. The comprehensive schedule should be periodically reviewed and reconciled.	Open: Now a reportable condition
24	B. Spreadsheet Subsidiary Ledger System (Modified Repeat Condition)	Implement change control procedures over spreadsheet applications to ensure that changes are reviewed and authorized, and formula cells are protected.	Closed
IV. FCC's Contingency Plans			
25	FCC's Contingency Plans	Complete the development and implementation of a comprehensive contingency plan that integrates the individual plans of FCC's data centers, networks, and telecommunications facilities.	Closed

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September 30, 2006

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
26	FCC's Contingency Plans	Ensure that the COOP includes the recovery of FCC's major applications in accordance with recovery times deemed critical to mission and operations of the bureaus and offices.	Closed
27	FCC's Contingency Plans	Develop a contingency plan for certain FCC system assets.	Closed
REPORTABLE CONDITIONS			
V. Financial Reporting			
28	A. Integrated Financial Management Systems (Repeat Condition)	Ensure the integration of the overall financial management systems. These integrations should include all receivable transactions to be recorded in RAMIS, the fee billing system, the auction subsidiary systems, and various stand-alone systems such as the property management system, databases, spreadsheets and reporting components' financial reporting.	Open
29	A. Integrated Financial Management Systems (Repeat Condition)	Authorize the loan service provider to implement the necessary functional requirements to meet JFMIP's loan servicing system standards.	Open
30	A. Integrated Financial Management Systems (Repeat Condition)	Ensure that the USF general ledger system is in full compliance with the Financial Management System requirements and the USSGL.	Open

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Recommendation No.	Condition/Audit Area	Recommendation	Current Status
31	B. Federal Financial System Setup and Posting Model Definitions (Repeat Condition)	Perform a periodic or quarterly update of FFS system setup and posting model definitions to ensure timely correction of outdated models and compliance with the latest transaction posting models consistent with USSGL guidance and policies for recording and classifying transactions.	Open
32	C. Financial Statement and Federal Agencies' Centralized Trial-Balance System II (FACTS II) Differences (Repeat Condition)	Ensure timely communications of adjusting entries and reconciliations between all groups within FCC with financial reporting responsibilities.	Open
VI. Cost Accounting			
33	A. Minimum Level of Cost Accounting (Modified Repeat Condition)	Enhance BEAMS functionality to satisfy the minimum level of cost accounting required in a managerial cost accounting system by SFFAS No. 4.	Open
34	A. Minimum Level of Cost Accounting (Modified Repeat Condition)	Define outputs produced by the responsibility segments and incorporate the definition into the Statement of Net Costs allocation methodology.	Open
35	B. Matching Revenue to Cost (Repeat Condition)	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.	Open

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September 30, 2006

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
VII. Reconciliation of Intragovernmental Transaction Balances			
36	Reconciliation of Intragovernmental Transaction Balances	Perform quarterly reconciliation of intragovernmental transactions and balances with other Federal agencies. The reconciliation process should be completed quarterly and include procedures to resolve any differences identified in a timely manner. The procedure should also include confirming amounts with trading partners and meeting with trading partners to resolve differences identified.	Closed
VIII. Payroll and Personnel Activities			
37	A. Payroll Activities	Increase the NFC and FCC system reconciliation procedures to include all leave categories.	Open
38	A. Payroll Activities	Ensure that timekeepers reconcile time and attendance report errors generated from the FCC's desktop payroll reconciliation system.	Open
39	A. Payroll Activities	Enhance the LES system capabilities to reject incorrect project codes from being entered in the system in the first place.	Open
40	A. Payroll Activities	Issue guidance to establish timeframes for employees to correct invalid project code errors.	Open
41	A. Payroll Activities	Provide the FCC contact person at NFC with a listing of uncorrected project codes monthly.	Open

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Recommendation No.	Condition/Audit Area	Recommendation	Current Status
42	B. Personnel Activities	Ensure documentation related to personnel actions or employee benefits are promptly updated and filed in the OPF.	Closed
43	B. Personnel Activities	Implement procedures to ensure that the network accounts of separating employees are terminated at the effective date of separation.	Open
IX. Debt Collection Improvement Act			
44	Debt Collection Improvement Act	Refer all eligible delinquent debt more than 180 days old to the Department of the Treasury for offset or timely cross servicing.	Open
45	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.	Open
46	Debt Collection Improvement Act	Strengthen quality controls surrounding preparation and submission of reports to external government agencies, including independent review and reconciliation.	Open
X. Electronic Data Processing (EDP) Controls			
47	A. OMB Circular No. A-130 Requirement for a Comprehensive Security Plan (Modified Repeat Condition)	Issue a new directive to replace the expired information security directive 1131.1.	Open

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Recommendation No.	Condition/Audit Area	Recommendation	Current Status
48	A. OMB Circular No. A-130 Requirement for a Comprehensive Security Plan (Modified Repeat Condition)	Make a determination on whether the contractor loan servicing system application should be a major application given that FCC identified RAMIS and the loan servicing spread sheets as major applications.	Closed
49	A. OMB Circular No. A-130 Requirement for a Comprehensive Security Plan (Modified Repeat Condition)	Ensure that transmission of all sensitive data to and from FCC's contractors and business partners is protected and encrypted.	Open
50	A. OMB Circular No. A-130 Requirement for a Comprehensive Security Plan (Modified Repeat Condition)	Ensure that the "principle of least privilege" is adequately enforced across all major applications and general support systems.	Open
51	A. OMB Circular No. A-130 Requirement for a Comprehensive Security Plan (Modified Repeat Condition)	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.	Open
52	A. OMB Circular No. A-130 Requirement for a Comprehensive Security Plan (Modified Repeat Condition)	Ensure that the recertification process for all systems (including contractors) is thorough and complete.	Open
53	B. RAMIS Application	Complete the implementation of recommendations made in the report on RAMIS.	Closed
54	C. Security Training and Education (Modified Repeat Condition)	Require that upon an acceptance of an FCC position, the new employee receive a packet with IT security training courses and dates, and a copy of FCC's <i>Rules of Behavior</i> .	Closed

APPENDIX A
FEDERAL COMMUNICATIONS COMMISSION
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
September 30, 2006

Recommendation No.	Condition/Audit Area	Recommendation	Current Status
55	C. Security Training and Education (Modified Repeat Condition)	Ensure and require that on the first day of work each employee reads and signs the <i>Rules of Behavior</i> as part of the orientation process.	Closed
56	C. Security Training and Education (Modified Repeat Condition)	Require each employee to accomplish a certain amount of security training per year to continue in his or her position.	Closed
57	D. Employee Duties and Position Risk Designation (Modified Repeat Condition)	Review and approve the <i>Personnel and Security Suitability Manual</i> .	Closed
58	D. Employee Duties and Position Risk Designation (Modified Repeat Condition)	Prioritize individual position reviews and make the necessary funds available to perform the task.	Closed
59	E. OMB Circular No. A-130 Requirements for USF (Modified Repeat Condition)	USF administrator should complete the certification and accreditation of its major applications and general support systems.	Closed
60	F. USF Password Controls (Modified Repeat Condition)	Strengthen password controls in accordance with USF administrator's password policy.	Closed

APPENDIX B

**Federal Communication Commission Management's Response to
Independent Auditor's Reports on Internal Controls and Compliance
with Laws and Regulations for Fiscal Year 2006**



Office of the Managing Director

MEMORANDUM

DATE: November 14, 2006
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 2006

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) 2006 audit process.

We are pleased that the audit opinion was unqualified and that the independent auditor found that the Commission's consolidated financial statements for FY 2006 present fairly, in all material respects, the financial position of the Commission as of September 30, 2006. We have worked very hard over the past year to strengthen the Commission's internal controls and improve its financial management. We are also pleased that, for the first time, the independent auditor has found that no "material weaknesses" affect the Commission's operations.

Despite these successes and efforts, additional work remains. The FY 2006 *Report on Internal Control* notes seven reportable conditions, and the *Report on Compliance with Laws and Regulations* notes instances on non-compliance with one law and two regulations. We concur with the recommendations made by the independent auditor in its report.

In addressing the reportable conditions, the Commission understands that the greatest opportunity and challenge to improving its financial reporting is to implement an integrated financial management system. The Commission has made the acquisition and implementation of a new core financial management system a top priority and has started an aggressive plan to acquire and deploy a new system. The Commission plans to complete the first phase of this project in FY 2007, and will implement its new core financial management system no later than October 1, 2009. A new core financial system will substantially improve the Commission's financial management by enabling more efficient operations and by addressing several audit recommendations that were raised in the independent auditor's report.

In FY 2007, the Commission also will continue to enhance its oversight and control over the activities of its reporting components in order to improve fiscal management, strengthen accountability, and resolve the independent auditor's longstanding findings on this issue. The Commission will also work with the reporting components to ensure that their financial systems meet the appropriate standards and expectations.

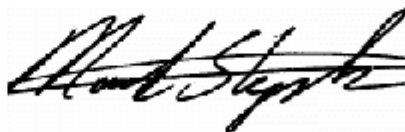
The remaining reportable conditions in the independent auditor's report relate to operational issues at the Commission, including flaws with payroll and personnel reporting processes; lack of timely and comprehensive referral of outstanding debts to the Department of the Treasury for collection activities; and compliance with Office of Management and Budget (OMB) guidance on information security controls for the Commission's information systems. The Commission is already working to assess fully these reportable conditions and to develop corrective action plans. During FY 2007, the Commission will make every effort to implement corrective action plans 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 reportable conditions 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 2007 to resolve the FY 2006 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

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OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: October 16, 2006
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 2007 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 Semiannual Report to Congress.

Financial Management

The establishment of an integrated financial management system is needed for improving financial management. The FCC has taken steps to acquire and implement a new core financial system in 2008. The new system should improve financial reporting and management at the FCC, as well as the reporting between the FCC and its agents reporting for the Universal Service Fund (USF), the Telecommunications Relay Service Fund (TRS), and the North American Numbering Plan (NANP).

The FCC's challenge is to maintain effective financial management until the new system is implemented. The FCC's current financial system has several inherent weaknesses that must be managed until remedied through a new system:

- The current financial system is not integrated with key FCC systems and its reporting components (i.e., agents for administration of USF, TRS and NANP). The FCC's consolidated financial statements are prepared from separate financial systems administered by separate reporting components. Consequently, at financial statement preparation time, the FCC goes through the process of compiling financial data in separate spreadsheets in a complex and time-consuming process. Both the FCC and the administrator of the Universal Service Fund (USF) use a number of spreadsheet-

based systems for accounting applications. For example, a spreadsheet subsidiary ledger system supports the FCC auction activity. These spreadsheets support the flow of transactions throughout the year.

- The administrator of the Universal Service Fund (USF) accounts for USF activity with a general ledger system with accounts that do not fully comply with the United States Standard General Ledger (USSGL). During the compilation of financial statements, the FCC has to map USF account numbers to specified USSGL accounts. This is a cumbersome process that lends itself to errors.

Universal Service Fund

Fraud is an inherent risk in the Universal Service Fund (USF) processes for the collection, certification, and disbursement of funds for the advancement of telecommunications services. During Fiscal Year 2006, a total of 68 investigations were initiated. This was an increase of 24 percent from the previous fiscal year. Audits have identified potential recoveries in excess of \$40 million. The FCC has taken action to address fraud in the USF business processes but additional efforts are needed.

In a Notice of Proposed Rulemaking released in June, 2005, the FCC initiated a comprehensive review and assessment of every facet of the USF program, including a top to bottom review of the administration of the USF program. Additionally, the FCC OIG, in consultation with the FCC's Office of the Managing Director, has renewed the competitive bidding process to obtain audit services from various audit firms to conduct a statistically valid number of audits to determine whether USF beneficiaries are receiving any improper payments from the fund. These audits will also determine whether the beneficiaries are following the FCC rules and interpretative rulings in each of the USF programs, including USF contributors.

Currently, the Universal Service Administration Company (USAC) is in the process of making over one thousand site visits. These visits are focusing on best practices, potential rule violations, and applicant outreach. Our office's resource constraints have precluded us from performing assessments of the rigor with which these site visits are being conducted.

Telecommunications Relay Service Fund

Fraud is also an inherent risk in the administration of the Telecommunications Relay Service (TRS) Fund. This fund compensates 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. Investigations of fraud in this program have resulted in indictments and settlement agreements.



Kent R. Nilsson

cc: Managing Director
Chief of Staff
Chief Financial Officer

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Office of the Managing Director

MEMORANDUM

DATE: November 14, 2006
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) 2007 and beyond. In its October 16, 2006 memorandum, the OIG identifies three challenges facing the Commission: (1) maintaining effective financial management until a new financial management system is implemented; (2) continuing to address the potential for fraud related to the Universal Service Fund (USF); and (3) continuing to address the potential for fraud related to the Telecommunications Relay Service (TRS) Fund.

Management concurs with the challenges identified by the OIG. With respect to the financial management and reporting issues identified by the OIG, the Commission has made the acquisition and implementation of a new core financial management system a top priority. The Commission has already requested funding and hired additional staff to acquire and deploy a new core financial system. The Commission is working towards completing the initial phases of this project during FY 2007 and will implement the new core financial management system no later than October 1, 2009.

With respect to the challenge of mitigating the risk of waste, fraud, and abuse to the USF, as noted in the OIG challenges, the Commission has launched a comprehensive review of the management, administration, and oversight of the USF. In addition, the Commission has devoted significant additional resources towards improving oversight of the USF. In particular, the Commission has ensured that the USF Administrator (working in conjunction with the OIG) has conducted audits of USF beneficiaries and contributors. In 2005, the USF Administrator spent approximately \$8.9 million on outside auditors. This budget increased to \$15.4 million in 2006 and is expected to increase further to approximately \$33.4 million in 2007. As a result of these efforts, more than 100 outside auditors are now working to perform audits and reviews of the program. In addition, the Commission has ensured that the USF Administrator has conducted more than 1,200 on-the-spot inspections of USF beneficiaries since 2005. The combination of audits and on-the-spot inspections has resulted in recommendations to recover approximately \$71 million in improperly awarded USF monies. Actions to recover these monies are currently underway. The Commission has also increased enforcement of USF rules and debarred or suspended more than eight parties in 2006. Finally, the Commission adopted a coordinated plan to more effectively and efficiently oversee the management of the USF by devoting additional internal resources to overseeing the financial and accounting operations of the USF Administrator and by expanding the audit authority of and resources available to the Commission's OIG.

With respect to the potential for fraud in 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 started an 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.

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

Appendix: Glossary of Acronyms

3G	Third generation
ADA	Americans with Disabilities Act
ADSL	Asymmetric Digital Subscriber Lines
Agency	Federal Communications Commission
AIS	Automatic Identification Systems
AMSS	Aeronautical Mobile Satellite Service
APCO	Association of Public Safety Communications Officials
APEC TEL	Asia Pacific Economic Cooperation
APOA	Alternate Processing Options Analysis
ARC	Appalachian Regional Commission
ASL	American Sign Language
ATC	Ancillary Terrestrial Component
AWS	Advanced Wireless Services
BAS	Broadcast Auxiliary Service
BEAMS	Budget Execution and Management System
BIA	Business Impact Analysis
Big LEO	Low-Earth Orbit Mobile-Satellite systems
BOCs	Bell Operating Companies
BPD	Bureau of Public Debt
BPL	Broadband Power Lines
BRS	Broadband Radio Service
BSS	Broadcasting Satellite Service
C&A	Certification and Accreditation
CA	Communications Assistant
CALEA	Communications Assistance for Law Enforcement Act
CDBS	Consolidated Database System
CDMA	Code Division Multiple Access
CEPT	European Conference of Postal and Telecommunications Administrations
CITEL	Inter-American Telecommunication Commission
CLE	Continuing Legal Education
CLEC	Competitive Local Exchange Carrier
CMRS	Commercial Mobile Radio Services

COMAD	Commitment Adjustment
Commission	Federal Communications Commission
COOP	Continuity of Operations Plan
COTS	Commercial off-the-shelf
CPI	Consumer Price Index
CPIC	Capital Planning and Investment Control
CPI-U	Consumer Price Index for all Urban Consumers
CSEA	Commercial Spectrum Enhancement Act
CSP	Computer Security Program
CSRS	Civil Service Retirement System
DAB	Digital Audio Broadcasting
DBS	Direct Broadcast Satellite
DCIA	Debt Collection Improvement Act
DRP	Disaster Recovery Plan
DSL	Digital Subscriber Lines
DSRC	Dedicated Short-Range Communications
DTV	Digital Television
E911	Enhanced 911
EAS	Emergency Alert System
EBS	Educational Broadband Service
EI	Effective interest method
ERP	Enterprise Resource Planning
ESMR	Enhanced Specialized Mobile Radio Service
ESV	Earth Station on Vessel
EV-DO	Evolution-Data Only
FACA	Federal Advisory Committee Act
FACTS 1	Federal Agency Centralized Trial Balance System
FAR	Federal Acquisition Regulations
FBI	Federal Bureau of Investigation
FCC	Federal Communications Commission
FCCU	FCC University
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employee Compensation Act
Federal	Federal Government

FEDGAAP	Generally Accepted Accounting Principles for Federal Government Agencies
FERS	Federal Employee Retirement System
FFMIA	Federal Financial Management Improvement Act
FFS	Federal Financial System
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers Financial Integrity Act
FOH	Federal Occupational Health
FRN	FCC's required registration numbers
FTE	Full-time equivalents
FTTC	Fiber-to-the-curb
FTTH	Fiber-to-the-home
FS	Fixed Microwave Service
FY	Fiscal Year
GAAP	Generally accepted accounting principles
GAO	Government Accountability Office
GET	Government Emergency Telephone services
GFRS	Government wide report system
GHz	Gigahertz
GOVGAAP	Generally Accepted Accounting Principles for Government Agencies
GPRA	Government Performance and Results Act of 1993
HD	High Definition
IB	International Bureau
IBFS	International Bureau Electronic Filing System
IBOC	In-Band On-Channel
ICASS	International Cooperative Administrative Support Services
IEEE	Institute of Electrical and Electronic Engineers
IMPACT	Improving Management of Policy Activities through Collaborative Technologies
IP	Internet Protocol
IPIA	Improper Payments Information Act
ISP	International Settlements Priority
ISP	Internet Services Provider
IT	Information Technology
IT DRP	Information Technology Disaster Recovery Plan
ITFS	Instructional Television Fixed Service

ITS	Intelligent Transportation System
ITS	International Telecommunications Settlement
ITSP	Interstate Telecommunications Service Providers
ITU	International Telecommunication Union
ITU-R	International Telecommunication Union Radiocommunication
IVDS	Interactive Video and Data Service
IVR	Interactive Voice Response
IWG	Informal Working Group
JFMIP	Joint Financial Management Improvement Program
JSA	Joint Services Agreement
Kbps	Kilobits per second
LEC	Local Exchange Carrier
LMDS	Local Multichannel Distribution Service
LNP	Local Number Portability
LPFM	Low Power FM
LPTV	Low Power Television
MDS	Multichannel Distribution Service
MHz	Megahertz
MMDS	Multichannel Multipoint Distribution System
MSRC	Media Security and Reliability Council
MVPD	Multichannel Video Programming Distribution
NA	Not applicable
NAL	Notice of Apparent Liability
NANP	North American Numbering Plan
NANPA	North American Numbering Plan Administrator
NCS	National Communications System
NECA	National Exchange Carrier Association
NENA	National Emergency Number Association
NEPA	National Environmental Policy Act
NFC	National Finance Center
NOI	Notice of Inquiry
NPRM	Notice of Proposed Rulemaking
NRIC	Network Reliability Interoperability Council
NS/EP	National Security / Emergency Preparedness

NTIA	National Telecommunications and Information Administration
OECD	Organisation for Economic Co-operation and Development
OET	Office of Engineering and Technology
OFDM	Orthogonal Frequency Division Multiplexing
OGC	Office of General Counsel
OHS	Office of Homeland Security
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMD	Office of the Managing Director
OPM	Office of Personnel Management
PA	Pooling Administrator
PAR	Performance and Accountability Report
PART	Program Assessment and Rating Tool
PCS	Personal Communications Service
PDA	Personal Digital Assistants
PDP	Personal Development Plan
PERM	Performance Evaluation and Records Management
PLMR	Private Land Mobile Radio
PP&E	Property, Plant and Equipment
PSAP	Public Safety Answering Points
PSIP	Program and System Information Protocol
QPRR	Quarterly Performance and Results Review
RAMIS	Revenue Accounting and Management Information System
RF	Radio Frequency
RFID	Radio Frequency Identification
RUS	Rural Utilities Service
S&E	Salaries & Expenses
SCP	Special Coordination Procedure
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
SHVERA	Satellite Home Viewer Extension and Reauthorization Act of 2004
SMR	Specialized Mobile Radio
SPTF	Spectrum Policy Task Force
SSP	System Security Plan

ST&E	Security Test and Evaluation
STA	Special Temporary Authority
TCB	Telecommunication Certification Bodies
TDF	Telecommunications Development Fund
TDM	Time Division Multiplexing
TELRIC	Total Element Long-Run Incremental Cost
TFM	Treasury Financial Manual
The Act	The Communications Act of 1934, as amended
The Telecommunications Act	The Telecommunications Act of 1996
Treasury	U.S. Department of the Treasury
TRS	Telecommunications Relay Service (Fund)
TSP	Telecommunications Service Priority
TV	Television
U.S.	United States
U.S.C.	United States Code
UCC	Uniform Commercial Code
UNE	Unbundled Network Element
USAC	Universal Service Administrative Company
USCG	United States Coast Guard
USDA	United States Department of Agriculture
USF	Universal Service Fund
UWB	Ultra-wideband
VERA	Voluntary Early Retirement Authority
VNRs	Video news releases
VoIP	Voice over Internet Protocol
VRS	Video Relay Service
W-CDMA	Wideband Code Division Multiple Access
Wi-Fi	Wireless Fidelity
WISP	Wireless Internet Services Provider
WLAN	Wireless Local Area Network
WPAS	Wireless priority access service
WRC-07	World Radiocommunication Conference 2007
WTO	World Trade Organization
WTSA	World Telecommunications Standardization Assembly