Federal Communications Commission

Fiscal Year 2004
Performance and Accountability Report

(October 1, 2003 – September 30, 2004)

Contents

Message from the Chairman

I am pleased to present the Fiscal Year 2004 Performance and Accountability Report for the Federal Communications Commission (FCC). As now required under the Accountability for Tax Dollars Act of 2002, this Performance and Accountability Report combines performance and financial reporting in a single document.

Today's telecommunications networks are the conduits through which the Nation's economic, educational, informational, and entertainment resources flow. Digital broadband technologies, both wired and wireless, are providing a limitless combination of voice, video, and data services that are changing the way Americans of all ages work, learn, live, and earn. These networks boost our economy by opening new markets and by creating new businesses and new jobs. And they improve our quality of life by making the resources of the world's great universities and hospitals available to any who would use them, and by connecting us in real time to events as they unfold locally, nationally, or internationally.

It is not surprising, then, that computer ownership and Internet access are growing remarkably. Today 48 million Americans have high-speed Internet access at home, a more than fourfold increase since I became chairman less than four years ago. During this same period the number of Americans using wireless Internet services also jumped from less than 2.5 million to over 14 million, as the number of Wi-Fi units sold per year rose more than fourfold.

To link our performance to the achievement of the Commission's strategic objectives, we have identified six pillars that underpin all the FCC's efforts: broadband, competition, spectrum, media, homeland security, and modernizing the FCC.

Continued economic growth and increased consumer welfare depend on making high-speed broadband technology accessible and affordable for all. To ensure accessibility, the FCC must provide adequate spectrum for these devices to operate. To promote affordability, the FCC must ensure that competition among telecommunications service providers remains vibrant, because competition is a proven spur to lower prices and more innovative choices. And finally, the FCC must also ensure that existing telecommunications technologies and providers have a fair opportunity to adapt to and participate in the new digital broadband-based market.

The cornerstone of our regulatory efforts has been to foster competition in the communications sector. Continuing to refine and streamline our rules to foster lasting competition in and among communications networks and providers will remain a priority.

This year, we have also undertaken a number of significant actions in the areas of spectrum and media. In response to recommendations from the Spectrum Policy Task Force, the FCC increased the amount of unlicensed spectrum available for new and innovative uses. We also revised our regulations for licensed spectrum to ensure greater efficiency. These actions reduce regulatory burdens, thereby allowing market forces to play a greater role in determining how spectrum can best be used.

With respect to media, the FCC comprehensively reviewed its longstanding media ownership rules in an effort to make them better reflect the realities of today's new multichannel digital telecommunications market. We will continue to revise these rules as appropriate. In addition, we continue our day-to-day licensing and regulatory activity while acting to implement the transition to digital television. The ultimate good at the end of that transition – freeing more spectrum for important uses such as public safety – is well worth this effort.

The FCC has continued to advance the important goal of homeland security. Communications technology is integral to our ability to safeguard the public, combat risks, and ensure our freedoms. Recent FCC initiatives helped create networks that can provide "on the scene" information about building architecture during a fire, or locate hidden suspects during a chase. We also continue to work with local public safety authorities to overcome the challenges of E911 deployment, and we recently adopted a plan that will provide much-needed new spectrum for emergency responders and alleviate the harmful interference that currently inhibits public safety radio use in many locales. We are also working with commercial licensees to establish industry standards for network reliability and redundancy. This groundwork will help ensure that our networked society functions smoothly in normal times and can be restored promptly in the event of another terrorist attack.

The FCC's modernization is critically important. To make sure that our rules keep pace with the ever-changing telecommunications market and to ensure that consumers get the maximum benefit from new telecommunications services, the FCC must stay up-to-date on new technologies and industry trends. To ensure that consumers have the benefit of new services as quickly as possible and to cut down on the costs imposed by regulatory delay, we have improved our systems by implementing an advanced new electronic filing system. To further help reduce the time needed to authorize the use of new telecommunications equipment, since FY 2000 we have spent nearly $3.4 million to improve our engineering lab, and we have increased the number of engineers on staff from 270 to 300. And to ensure that all FCC staff has access to the latest in training, we inaugurated an FCC University that currently offers a wide range of courses in telecommunications law, engineering, economics, management, and related topics. The results of these initiatives are clear: despite the numerous challenges the FCC faced throughout the year, the agency's staff provided unwavering service quality to the American people.

We also faced significant management issues in the course of the past year related to the universal service program. At the beginning of FY 2004, the Commission adopted a rule requiring the Universal Service Administrative Company (USAC) to account for and maintain the financial transactions of the Universal Service Fund (USF) in accordance with the same principles and practices that apply to Federal agencies. We believe this strengthens the financial foundation of the USF, particularly as we confront widely publicized allegations of waste, fraud, and abuse in this multi-billion dollar program. The conversion to these accounting standards has not been easy for the USAC or the Commission. As the fiscal year closes, we continue to work in close consultation with the USAC and the Office of Management and Budget to advance the goals of the universal service program, while ensuring that the program operates on the soundest of economic footings, free of waste, fraud, and abuse.

In the two prior years, the FCC exceeded the requirements of the Federal Manager's Financial Integrity Act and received a "clean" or unqualified audit opinion on all of the consolidated financial statements. However, as a result of the management issues regarding the USF, the audit opinion for FY 2004 disclaimed on two of the six consolidated financial statements. We have evaluated our management controls and financial management systems and identified those areas of material weakness. Plans are in place and significant progress has been made towards resolving these items expeditiously.

I am pleased to officially certify with qualified assurance that, except for the material weaknesses and instances noted of non-conformance with laws and regulations, specifically identified in this report (see pages 14-17), the Commission is in compliance with the provisions of the Federal Manager's Financial Integrity Act. We acknowledge our weaknesses, and plans are progressing to resolve each of them. In this report, we have made every effort to provide financial and performance data that are complete and reliable. The integrity of our management is high, and we continue to vigorously pursue prompt resolution of all of the reported instances of weakness and instances noted of non-conformance and to reduce susceptibility to waste, fraud, and mismanagement.

Michael K. Powell
Chairman
Federal Communications Commission
November 15, 2004

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1. Management's Discussion and Analysis

OVERVIEW OF THE FCC

Introduction

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

Chapter 1 presents the Management's Discussion and Analysis, including: the FCC's mission; an overview of the agency's reporting structure; Fiscal Year (FY) 2004 performance and financial highlights; descriptions of legal compliance, systems, and controls; summary information related to the Federal Manager's Financial Integrity Act material weaknesses and instances noted of non-conformance and related corrective actions; and potential future issues that could affect the FCC. Chapter 2 contains the annual program performance report. Chapter 3 presents the FCC's principal financial statements for FY 2004, notes to the consolidated financial statements, and required supplementary information. Appendix A contains a glossary of acronyms used in this report.

This PAR is a guide to key FCC initiatives and activities during FY 2004, or planned for future years, that demonstrate the breadth of the Commission's work. An electronic version of the FY 2004 PAR can be found on FCC's website: http://www.fcc.gov/omd/strategicplan/.

About the FCC

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

The FCC is directed by five commissioners, appointed by the President and confirmed by the Senate for five-year terms, except when filling an unexpired term. The President designates one of the commissioners to serve as chairman. No more than three commissioners may be members of the same political party, and commissioners may not hold a financial interest in any company or entity that has a significant interest in activities regulated by the Commission.

FCC Mission

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

FCC Reporting Components

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

The following six operating Bureaus and one FCC Office implement the Commission's six strategic goals: Consumer and Governmental

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

Affairs, Enforcement, International, Media, Wireless Telecommunications, Wireline Competition, and the Office of Engineering and Technology. They develop and implement regulatory programs, process applications for licenses or other filings, analyze complaints, conduct investigations, and participate in FCC hearings.

Nine additional staff Offices support the FCC's activities: Administrative Law Judges, Communications Business Opportunities, General Counsel, Inspector General, Legislative Affairs, Managing Director, Media Relations, Strategic Planning and Policy Analysis, and Workplace Diversity.

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

Components of the FCC for Financial Statement Purposes

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

Universal Service Fund (USF): The Telecommunications Act of 1996 (the Telecommunications Act) codified and modified the FCC's longstanding policy of promoting universal telecommunications service throughout the Nation. Pursuant to section 254 of the Telecommunications Act,[2] the FCC established rules and regulations governing how certain telecommunications service providers contribute to the USF and how those monies are disbursed. For the purposes of submitting the Nation's budget each year, the USF consists of five elements, four of which are universal service support mechanisms and the fifth being the Telecommunications Relay Service (TRS) Fund. In past years, the universal service support mechanisms have operated on a different fiscal year from other FCC programs – from January 1 to December 31. In FY 2005, the universal support mechanisms will utilize the same fiscal year as the FCC – October 1 to September 30.

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

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

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

[2] 47 U.S.C. § 254.

determined by the Commission. In implementing Section 251, the FCC appointed a NANP Administrator (NANPA), a national Pooling Administrator (PA) to administer thousands-block number pooling, and a Billing and Collection Agent. In April 2004, the FCC announced its selection of an outside contractor to be the new NANP Billing and Collection Agent.

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

Strategic Goals and Objectives

Consistent with the objectives of the Act, as amended by the Telecommunications Act, as well as the 1993 Government Performance and Results Act (GPRA), the FCC has identified six long-term strategic goals, and 14 subsidiary performance goals:[3]

1. Strategic Goal: Broadband

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

***Performance Goal*:**

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

2. Strategic Goal: Competition

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

***Performance Goals*:**

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

3. Strategic Goal: Spectrum

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

***Performance Goals*:**

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

4. Strategic Goal: Media

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

***Performance Goals*:**

- Develop a sound analytic foundation for media ownership rules.

[3] The strategic and performance goals are consistent with the FCC's FY 2003-2008 Strategic Plan and can be found in the FCC's FY 2005 Performance Budget.

- Facilitate the transition to digital television and radio.
- Clarify and ensure compliance with general media obligations.

5. Strategic Goal: Homeland Security

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

***Performance Goal*:**

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

6. Strategic Goal: Modernize the FCC

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

***Performance Goal*:**

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

Strategies & Resources to Achieve Goals

The FCC has identified strategies and resources to achieve its performance goals for each long-term strategic goal. In FY 2005, for the first time the FCC integrated the annual performance plan with its budget information. Details on the FCC's strategies and resources for achieving its strategic goals are included in the Commission's strategic plan, found at: http://www.fcc.gov/omd/strategicplan. The FCC's FY 2005 performance budget provides further information, and can be found at: http://ftp.fcc.gov/Reports/fcc2005budget.html.

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

Future Challenges

The Commission has identified certain demands, risks, uncertainties, events, conditions, and trends that may affect the FCC's ability to achieve its goals and objectives. These external factors, discussed below, may influence competition in telecommunications markets.

- *Market and Economic Uncertainties.* Continued deployment of broadband infrastructure and innovative telecommunications technology depends heavily on capital investment. Litigation over important aspects of the regulatory framework related to broadband services, local competition, and media ownership has caused market uncertainty.
- *Consumer Demand.* Achieving return on investment hinges on consumer demand for services. The business models of many new competitors depend on combining multiple existing and new services on a single service delivery platform and generating consumer demand for these bundled services.
- *International Developments.* The FCC's vision of fully competitive communications markets in the U.S. is at least partially contingent on whether other nations also promote deregulation, competition, and increased private investment in their communications infrastructure. The FCC's success will depend on vigorous enforcement of the market access commitments set forth in the 1997 World Trade Organization (WTO) Agreement on Basic Telecommunications Services.
- *Political Uncertainty.* The FCC cannot predict possible future actions by Congress, which may change Federal laws and

potentially affect FCC's responsibilities and workload. Nor can the FCC accurately predict the outcome of pending litigation. Further, the Commission's ability to achieve its goals and objectives could be affected by unpredictable events.

- *Resources.* Finally, the Commission's ability to achieve its vision is largely dependent on the allocation of resources to carry out critical activities. The FCC likely will need to redeploy existing budget and staff resources to address changing priorities. Our efforts to deal with this challenge, e.g., through workforce planning, are described under the Modernize goal in Chapter 2.

FISCAL YEAR 2004 HIGHLIGHTS

Performance Highlights

The FCC assesses achievements in performance, with regard to GPRA, by output activities and outcome indicators. Achievement of the outcome indicators is measured by accomplishing output activities. Although the actions FCC takes (output activities) are likely to influence the marketplace, they cannot control the marketplace. The Commission generally controls the output activities, which in turn influence the outcome indicators. We measure our progress by whether we accomplish our output activities and the corresponding increase or decrease in our outcome indicators. The external factors that may influence whether we meet our objectives are economic, legal, and organizational. These factors are highlighted in our FY 2003-2008 Strategic Plan (pages 8-9), which can be found at: http://www.fcc.gov/omd/strategicplan.

At the time of this report, the FCC had final data for 12 (or 57%) of its 21 outcome indicators. Of the 12 outcome indicators for which data were available, the FCC met 11 (or 92%) of the goals. Additionally, the FCC achieved 48 of the 49 (or 98%) of the FY 2004 output activities.

Detailed information on the results achieved for each of the FY 2004 goals is available in Chapter 2 of this report. Additionally, performance trend data, where available, is displayed in the Chapter 2 charts and tables. It is expected that remaining FY 2004 performance data will be available by the summer of 2005. Where data is not yet available at the time of this report, it will be included in the FY 2005 PAR.

The following outcome indicator, previously measured in FY 2003, was eliminated at the end of FY 2003 in the FY 2003 Annual Program Performance Report (see page 24 of the report at: http://www.fcc.gov/Reports/ar2003.pdf):

- Increasing deployment of Wireless Priority Access Service (WPAS).

During FY 2003, we determined that since the deployment of WPAS (managed by the Department of Homeland Security, National Communications System) is voluntary it is not an appropriate measurement.

The following outcome indicator, previously measured in FY 2003, was temporarily suspended at the end of FY 2003 because data would not be available in FY 2004:

- Increasing reporting of service outages across multiple platforms.

In the past, only wireline and cable telephony communications providers were required to report service outages. In August 2004, the FCC adopted rules extending reporting requirements to wireless and satellite providers. These actions will facilitate more reliable telecommunications throughout the U.S. and promote homeland security. However, data will not be available until some point in FY 2005, and performance results will be included in the FY 2005 PAR.

Financial Highlights

The FCC has obtained unqualified opinions for FYs 2000, 2002, and 2003. This is a significant achievement for a small agency. Over the past year, great strides were made to enhance loan and cost accounting systems, implement proper budgetary accounting requirements for our reporting components, and continue to improve on our record of fiscal responsibility.

Significant Financial Events – Future Effects of Current Demands

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

Bankruptcy

The FY 2005 subsidy reestimate reflected in the FY 2004 financial statements was impacted by two notable bankruptcies: NextWave Communications, Inc. (NextWave) and Leap Wireless International, Inc. (Leap) / Cricket.

<u>NextWave</u>

Recoveries received in the third quarter of FY 2004 from the NextWave/Cingular settlement for both the C and F Blocks totaled $714 million. For the licenses retained by NextWave, the FCC is entitled to collect an additional $398 million from the sale of these licenses. These funds were recovered in October 2004. For the NextWave licenses being returned to the FCC, a further recovery is expected in the first quarter of FY 2006, based on the results of Auction No. 58.

<u>Leap/Cricket</u>

The Leap/Cricket licenses went into potential default in first quarter FY 2004. The FCC received a payment of $44.7 million from Leap in the fourth quarter of FY 2004 as part of the bankruptcy settlement. The FCC currently expects to recover an additional $42.6 million from the settlement as follows: $7.2 million in the third quarter FY 2005 (April 2005) and $35.4 million in fourth quarter FY 2005 (July 2005).

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

The FCC's most significant assets are Loans Receivable of $2.7 billion and Cash and Investments of $3.3 billion. Together, these balances accounted for 81% of total assets as of September 30, 2004. The Loans receivable balance consists of gross receivables, including interest and other receivables, totaling $6.5 billion, offset by an allowance of negative $3.8 billion. The NextWave portion of gross receivables is $5.8 billion or 89% of the loan portfolio.

The large Investments balance of $3.3 billion reflects a carryover in the USF that has grown since the program's inception as a result of annual contributions that have exceeded annual distributions.

The FCC's most significant liability is debt of $3.9 billion, which accounted for 78% of total liabilities at September 30, 2004. All of the debt is owed to Treasury for borrowing related to credit reform installment loans.

Net position consists primarily of the balance contributed by the Results of Operations, which was nearly $2.3 billion as of September 30, 2004, and accounted for 99% of Net Position. Included in the Results of Operations balance is $3.4 billion for the USF/NANP and a negative $1.1 billion for the FCC. The contribution carryover discussed previously for Investments accounts for $3.3 billion of the USF/NANP balance.

Consolidated Statement of Net Cost

The FCC made two significant changes with respect to the Statement of Net Cost in FY 2004. The first change was the implementation of a new cost accounting system effective October 1, 2003. The new system automates the allocation process and is integrated with the core financial system. This system will correct several weaknesses noted in prior year internal control reports.

The second change was the conversion from programs based on activity codes in the FCC's previous strategic plan to programs based on goals in the revised FY 2003-2008 Strategic Plan, which took effect in FY 2004. The conversion affects the comparability between the FY 2003 and FY 2004 Statement of Net Cost and reduces the number of reported programs from eight to six.

The net cost of FCC operations for FY 2004 was $7.0 billion, of which $5.8 billion correlates to component entities whose funds are restricted for NANP and USF programmatic activities only, and cannot be used by the FCC. The $7.0 billion is allocated between the FCC and the two components as follows:

Component	Net Cost of Operations
FCC	$1,171 million
NANP	$ 3 million
USF	$5,846 million

Consolidated Statement of Changes in Net Position

Carryover related to the USF continued to grow and increased by $499 million since September 30, 2003. The increase is reflected in the Results of Operations increase of $499 million over the same period.

Combined Statement of Budgetary Resources

A correction in the accounting related to the purchase of Non-Federal Money Market Funds is reflected in the FY 2004 Statement of Budgetary Resources. The correction adjusts beginning budgetary authority carried forward from FY 2003 from $2.1 billion to $4.4 million. Additional Budgetary resources received in FY 2004 consisted of $297 million for FY 2004 Salaries & Expenses (S&E), $15.9 billion in USF receipts, $1.0 billion in credit related receipts, borrowings, and appropriations, and $90 million attributable to reimbursable auction activities for total authority of $17.3 billion

Consolidated Statement of Custodial Activity

The FCC reported $571 million of custodial revenue as of September 30, 2004. Spectrum Auctions represents $205 million, Credit Reform Interest represents $343 million, and the remaining $23 million derives from forfeitures and penalties.

Other Key Financial Statement Highlights

Subsidy Reestimate

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

The FCC's FY 2005 subsidy reestimate was completed to reflect the actual loan performance through June 30, 2004 and projected performance through September 30, 2004. The reestimate resulted in a net upward adjustment (increase in the subsidy cost) totaling $733 million in the Spectrum Auction program. An additional $464.6 million increase is also recognized, due to interest on the technical reestimate; this represents the amount of interest that would have been paid if the technical reestimate had been included as part of the original subsidy estimate. This reestimate is reported in the FCC's FY 2004 financial statements, but will not be reported in the budget until FY 2005. 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 2004, 120 loans were paid off. Collections resulting from these loan payoffs, which include principal, interest, suspension interest, and late fees, totaled $13.2 million. When compared with the FCC's total collections of $822.1 million in principal, interest, suspension interest, and late fees, these loan payoffs represent approximately 1.6% of all collections. In addition, in FY 2004, the FCC had non-cash transactions of $17.8 million related to the Qualcomm, Inc. voucher transactions for the GWI PCS, Inc. licenses.

Regulatory Fee Collections

Section 6003(a) of the Omnibus Budget Reconciliation Act of 1993 (Public Law 103-66) added a new Section 9 to the Act. The law requires that the FCC annually collect fees and retain them for FCC use to offset certain costs incurred by the Commission. The fees collected are intended to recover the non-licensing costs attributable to the Commission's competition, enforcement, consumer information, and spectrum management activities. The amount the FCC is required to recover is included in the FCC's annual appropriations. Regulatory fees are collected and deposited directly into the Treasury to offset the FCC's appropriations for the current fiscal year. In FY 2004, the FCC was expected to collect approximately $273 million; the Commission collected over $285 million, approximately $12 million more than required by Congress.

Legal Compliance, Systems, and Controls

Legal Compliance

Like other Federal agencies, the FCC must comply with statutes and regulations related to appropriations, safety and health, and employment. The Office of the 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.

In the FCC's efforts to comply with applicable legislation, regulation, and guidance, effective management and system controls are essential. Although the FCC has significantly improved its management controls, additional improvement is needed, as indicated by the results of the FY 2003 financial statement audit. The FCC's efforts to address instances noted of non-conformance with laws and regulations identified in the audit are described in Exhibit 2.

Systems

Federal Financial Management Improvement Act of 1996

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

The FCC, as of September 30, 2004, has evaluated its financial systems:

- Federal Financial System (FFS) – the FCC's central accounting system.
- Revenue & Accounting Management Information System (RAMIS) – the system that handles collections and accounts receivables specific to the FCC. It is designed to interface with FFS and the FCC's licensing systems.
- BEAMS – this cost allocation software implemented October 1, 2003, supports the partnership between program and financial managers; assures the integrity of information for decision-making; and measures the full cost of FCC's programs. The BEAMS supports the Statement of Net Cost for the financial statements, as well as detailed budget execution and FTE reporting to improve management of Commission resources and cost effectiveness of agency programs.
- The FCC contracted out the activities related to loan servicing for the portfolio, document management, and Uniform Commercial Code (UCC) review and filing services. The FCC completed the transfer of loan data to its contractor by September 30, 2003, with the full loan servicing implemented as of October 1, 2003. The contracted loan servicer's records now function as the system of record for the FCC's loan program.

Federal Information Security Management Act of 2002

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

Risk Assessment

Risk assessments are an integral aspect of the FCC's security tests and evaluations (ST&Es) that support the certification and accreditation (C&A) process. The ST&Es have been completed for all 19 major applications and two general support systems. In addition, C&As have been completed as of September 30, 2004.

Security Training

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

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

Disaster Recovery Plan

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

Security Planning

As required by OMB Circular A-130, Appendix III, and the Computer Security Act of 1987, the FCC Computer Security Program (CSP) has developed and maintains system security plans (SSP) for both FCC general support systems and all 19 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 all FCC computer security incidents for topics including attempted hacking, computer virus infection, unauthorized system access, lost IT-related devices, and other related matters. The CSP works with internal FCC Information Technology Center technical staff, the Inspector General, and external agencies such as the Department of Homeland Security's Federal Computer Incident Response Capability and National Infrastructure Protection Center, and the Federal Bureau of Investigation. To help FCC staff respond to computer security-related incidents, the FCC CSP published and distributed the FCC Computer Incident Response Guide and Computer Incident Response Team Desk Reference Guides.

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

Internal Control

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

Additionally, assets are properly acquired, used, and safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud. Further, FCC's internal control provides for the existence and completeness of the performance measures, as required by OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*.

The FCC received an unqualified opinion in FYs 2002 and 2003; however, the auditors found certain material weaknesses and reportable conditions. The Independent Auditors' Report on Internal Control and the FCC management's response included at the end of this report detail the Commission's efforts to address these issues in FY 2004.

Government Performance and Results Act of 1993

The GPRA implemented strategic planning and performance measurement in the Federal Government. The GPRA encourages agencies to shift the decision-making focus and accountability from program outputs to the results of those activities. As required by GPRA, the FCC has developed its FYs 2003-2008 Strategic Plan; the FY 2005 performance budget, which incorporates the previously-required annual performance plan; and the FY 2004 Annual Program Performance Report, included as Chapter 2 of this report.

Performance Data Completeness and Data Reliability

The performance data presented in this report is complete and reliable, as defined in OMB guidance. The FCC is dedicated to properly and effectively managing its mission and resources. The FCC uses numerous methods and techniques to verify and validate the completeness and reliability of data underlying its outcome indicators. Methods include: certification of reliability from data providers; a general program of review and evaluation conducted by the Performance Evaluation and Records Management (PERM) staff in OMD; and audits, reports, and reviews performed by other groups, such as the Office of Inspector General (OIG) and Government Accountability Office (GAO).

In general, the expected data sources are internal reports generated by various FCC Bureaus and Offices,[4] which often combine internally-generated data and externally provided data from Government surveys such as the Current Population Survey and industry data. In other cases, it is provided by outside sources.

Program Evaluations & Streamlining Activities

Due to the compressed timetable for the financial audit and the Performance and Accountability Report, staff attention was devoted to revising the format and content of the report to meet OMB's new reporting requirements. However, the FCC continued to focus on key vulnerability issues in its financial and information security programs.

Thirty-four vulnerability or risk assessments were completed during FY 2004. Of the total, 19 were related to information technology ST&Es discussed in the FISMA section above. Four vulnerability assessments scheduled for completion during FY 2004 were postponed until the first quarter of FY 2005.

Additionally, the GAO completed eleven studies or reports during the fiscal year; eight studies are still ongoing. Several of the studies focused on Government-wide programs while others focused on topics specifically related to the FCC such as the USF e-rate program (Schools and Libraries mechanism), Direct Broadcast Satellite (DBS) and cable competition, and the transition from analog to digital television.

The FCC continues to streamline its regulatory fee assessment and collection program. In FY 2004, the FCC sent bills for regulatory fees owed to Interstate Service Providers and satellite companies. It sent assessment letters to all Commercial Mobile Radio Services (CMRS), cable companies, and media licensees. Through this initiative, the FCC developed a comprehensive list of cell phone companies and related information, which provided the FCC with a more accurate estimate of the number of active lines for which each company pays regulatory fees. The FCC plans to continue these initiatives in FY 2005 by reviewing, analyzing,

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

and updating its licensee and financial databases and billing additional services each year.

A workforce planning report was completed and approved by the Chairman. The report includes an assessment of the challenges confronting the agency and the extent to which the agency has the appropriate mix of skills and staff to meet those challenges. The report pinpointed a need for additional attorneys, engineers and economists. The FCC obtained Voluntary Early Retirement Authority (VERA) from the Office of Personnel Management in July 2004 as a way to help reshape the agency's workforce.

The FCC initiated a multiyear effort to improve on-line capabilities for citizens, businesses, and other organizations that use FCC electronic licensing systems. Working to evolve an "enterprise-wide" strategy to integrate the diverse licensing systems, a cross-functional team of stakeholders was commissioned to produce a shared vision for electronic licensing systems. The modernization plan will focus on enhancing the overall licensing experience for FCC customers, updating the technical infrastructure, integrating the customer support functions and implementing customer-driven enhancements.

During FY 2004, the Commission continued to participate in OMB's Program Assessment Rating Tool (PART), addressing the Schools and Libraries (E-rate) program of the USF. Through this program, Congress sought to expand access of elementary and secondary schools/classrooms and libraries to advanced telecommunications services. The FCC took several steps to assess the program in FY 2004:

- Established an internal PART team to review and revise existing performance measurements for the E-Rate Program.
- Met with the GAO to discuss the status of E-Rate performance measurement revisions.
- Trained PART team staff on the development of performance measurements.
- Discussed the timeline for developing performance measures.
- Conducted further research with the Department of Education.

The PART team plans to finalize performance measures for the E-Rate Program and seek OMB approval in FY 2005.

Treasury Performance Measure Summary

Treasury uses five key performance measures to assess agency compliance with Federal Agencies Centralized Trial Balance System (FACTS I) and intragovernmental reporting activities. Overall, for FY 2003 the FCC complied with the reporting requirements for timely reporting, reconciliation of beginning and ending net position, reliability of FACTS I reporting, consistency of audited financial statements to FACTS I reporting, and intragovernmental activity for elimination of differences. The FCC will report on FY 2004 FACTS II and intergovernmental reporting activities in the FY 2005 PAR.

Inspector General Act of 1978

The Inspector General Act of 1978, as amended, requires semi-annual reporting on Inspector General audits and related activities, as well as agency follow-up. During the period from October 1, 2003, through September 30, 2004, management completed action on 165 outstanding recommendations, most of them related to issues posed by the Commission's former collection system which was almost fully replaced by RAMIS in FY 2004. As of September 30, 2004, 20 reports were one year or more old, with a total of 175 recommendations for which completion of corrective action was pending. The majority of these pending recommendations concern matters identified in the Commission's annual financial reports issued for fiscal years 1999 through 2003.

Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act of 1996 (DCIA) requires Federal agencies to transfer to the Treasury for debt collection any non-tax debt over 180 days delinquent. In cases of delinquency, the full amount of outstanding debt, including outstanding principal, past-due interest, and late fees, will be accelerated and must be paid in full. Failure to pay in full upon demand results in transfer of the debt to Treasury for debt collection and assessment of additional interest, penalties, and other administrative charges.

In FY 2004, the Commission adopted a Report & Order to fully implement DCIA, and adopted rules governing the collection of debts owed the Commission, consistent with the DCIA and the implementing regulations adopted by the Department of the Treasury. The FCC's DCIA rules also increased the Commission's authority to compromise, suspend, or terminate debts up to $100,000, and increased the minimum amount of debt that may be transferred to the Department of Justice to $2,500. On November 1, 2004, the FCC implemented the "Red Light" rule, which will dismiss pending applications if delinquent debt is not paid or otherwise resolved. The Red Light rule also will require all licensing systems and Bureau/Office staff to check for delinquent debt before issuing a license, permit, or grant. On May 17, 2004, the FCC posted the final rule implementing DCIA and delegation amendments in the *Federal Register*. These requirements became effective June 16, 2004, with the exception of the Red Light rule, which took effect November 1, 2004.

In FY 2004, the FCC transferred to Treasury outstanding debt totaling $26.1 million for loans and accounts receivable, of which debt outstanding from the reporting components amounted to $12.3 million

Improper Payments Information Act of 2002 – Narrative Summary of Implementation Efforts for FY 2004 and Agency Plans for FY 2005-2007

The Improper Payments Information Act (IPIA) requires Federal agencies to report annually on the extent of improper payments and on actions taken to reduce such payments. The FCC's FY 2003 Report to Congress on Improper Payments noted:

- After conducting a complete inventory, the FCC identified eight programs for analysis.
- The FCC statistically tested all eight programs on a pure disbursement basis; we can state, with 90% confidence, that the error rate in each of these programs is less than 2.5%.
- Based on an abundance of caution, and because the Commission is not yet in a position to determine the error rate due to third-party fraud, waste, and abuse, the FCC designated two programs – USF's Schools and Libraries and High Cost Support Programs - as subject to a significant risk for erroneous payments.
- It is expected that during FY 2005 the FCC will begin hundreds of audits in order to draw statistical conclusions about the error rate due to third-party fraud, waste, and abuse in each of these two programs. Once the statistical conclusions are drawn, actions to address the error rate and continued corrective action to reduce that rate will be implemented over the next several fiscal years.
- The FCC will complete these audits as soon as possible, although the sheer level of audit work necessary will likely cause the project to continue through FY 2005.

As noted, the FCC has identified two key USF programs, Schools and Libraries Program and High Cost Support Program, where further review will be conducted to identify improper payment reductions in the future. The FY 2004 outlays for these programs were significant at $1.5 billion and $3.4 billion, respectively.

Federal Managers' Financial Integrity Act of 1982

In accordance with the Federal Managers' Financial Integrity Act (FMFIA), the FCC identified corrective actions taken during FY 2004 to address material weaknesses and reportable conditions related to internal control.

Examples of our success in improving our financial activities include action requiring the USF be maintained under Federal Government accounting standards effective October 1, 2004, and the adoption of DCIA requirements for the Commission. The simple announcement of the DCIA implementation and its strengthened collection procedures, and related enforcement activities, increased USF collections sufficiently to help reduce contribution rates for two quarters this fiscal year. We expect that full implementation of both changes will provide added assurance that all those dealing with the FCC are treated equitably and paying only their fair share of the costs of agency operations.

Our success continues to create new challenges. Since the passage of the Telecommunications Act, the USAC has managed the USF, under the direct supervision of the FCC, but under accounting rules governing not-for-profit entities. In 1999, when the FCC initiated efforts to compile its first financial statements, it was determined that Federal Government management requirements apply to the USF. In FY 2002, our auditors recognized the growing risk associated with the lack of system integration as a material weakness. On September 26, 2003, the Commission acted to require the USF to conform to governmental accounting rules and other applicable rules and regulations.

The FCC OIG, in conjunction with the Department of Justice and the Federal Bureau of Investigation, are conducting investigations of beneficiaries of the USF as an outgrowth of our financial statement audit process. The audits have identified instances of both failure to follow program rules and actual fraud. The FCC increased funding to the Inspector General to conduct more audits, and the USAC expanded an internal audit staff to conduct more investigations. Many of the problems identified are related to the initial years of the program and have already been corrected, though the amounts involved are material. The FCC continues to pro-actively pursue changes in the Universal Service Program to enhance effectiveness and efficiency. The schools and libraries support mechanism is significant when compared to the operations of the FCC, and challenges remain to monitor and assure that the program disbursements made obtain the greatest possible benefits.

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

This is the first year the FCC is incorporating the FMFIA statement of assurance and findings into the Performance and Accountability Report. The FCC has used this opportunity to align more closely the discussion of material weaknesses and instances noted of non-conformance identified by the FCC's auditors, OIG, and GAO.

In FY 2004, the auditor's identified six material weaknesses related to the Commission's internal controls. These include auctions transactions, oversight of reporting components, USF financial accounting and reporting controls, reporting components' budgetary accounting, information technology, and cost allocation logic. The FCC will continue to address these material weaknesses in FY 2005.

Due to the timing of this report, Exhibits 1 and 2 detail the pending and completed FMFIA material weaknesses and instances noted of non-conformance, respectively, resulting from the FY 2003 audit findings, including the year first identified, the targeted corrective action date, key milestones for corrective action, and instances where the agency was not able to meet key milestones from the previous year. The FCC's first financial statement audit in FY 1999 identified numerous recommendations related to material weaknesses and instances noted of non-conformance. As shown in the tables below, over the past five years, the FCC has undertaken many corrective actions to address the material weaknesses and instances noted of non-conformance identified by OIG, GAO, and the independent auditors.

Exhibit 1: FMFIA Material Weaknesses

Material Weakness (Identified in the FY 2003 Financial Statement Audit Report on Internal Control)	FY First Identified	Targeted Corrective Action	Milestones for Corrective Action	Status
I. Financial Reporting				
A. Integrate Financial Management Systems:				
FCC's Core Financial System	1999	2005	Convert to an integrated loan processing system. (10/01/03)	Completed
			Convert to an integrated cost accounting system. (10/01/03)	Completed
			The Auctions module was moved to Production on 07/25/04. Processing in the module began in August 2004. (7/25/2004)	Completed
			The International Telecommunication Settlements (ITS) module was accepted into Production on 9/27/04. The ITS module will start to be used in October 2004. (Target: 11/30/2004)	In progress
FCC's Reporting Component's Core Financial Systems	1999	2005	Adopt an FCC order requiring USF components to adhere to Federal GAAP by 10/01/04. (9/26/03)	Completed
			Incorporate Federal GAAP requirements into the new NANP contract being issued in FY 2004. (04/05/04)	Completed
			Monitor and evaluate the component's implementation of Federal GAAP compliant accounting systems. (Target: 6/30/05)	In progress
B. Spreadsheet Subsidiary Ledger Systems	1999	2004	Convert to an integrated loan processing system. (10/01/03)	Completed
			Implement the Auctions accounting module in RAMIS. (11/30/03)	Completed
C. Timely Recording and Analysis of the FCC and its Reporting Components' Financial Activities	1999	2004	Convert to an integrated loan processing system. (10/01/03)	Completed
D. FCC's Supervisory Review of the USF Financial Reporting Process	1999	2005	Conduct quality control reviews on USF and NANP financial submissions. (Ongoing)	Ongoing
			Monthly meetings are being held to discuss financial reporting issues. (Monthly)	Completed
			Obtain copies of the USAC policies and procedures for quick reference. (06/30/04)	Completed
			Finalize FCC policies and procedures related to reporting components with the adoption of the FCC Order dated September 26, 2003. (Target: 9/30/05)	In progress
E. Federal Financial System Setup and Posting Model Definitions	2000	2004	Modify posting models to eliminate posting of expended appropriation entries to non-appropriated accounts. (03/31/04)	Completed
			Conduct, on a yearly basis, a review of the current SGL chart of accounts for compliance with the most recent Treasury Financial Manual. (Completed, but will be an ongoing process)	Completed

Material Weakness (Identified in the FY 2003 Financial Statement Audit Report on Internal Control)	FY First Identified	Targeted Corrective Action	Milestones for Corrective Action	Status
II. Auction Transactions	2003	2005	Establish a working group to address unbilled withdrawal and default penalties. (12/31/03)	Completed
			All withdrawal and default penalties have been identified and a master list is being prepared to track licenses status. Procedures and final list will be in place within the first quarter of FY 2005 (Target: 12/31/2004)	In progress
			Receivables have been set up for all amounts where default letter has been released. WTB is in the process of completing the remaining letters and finalizing the list of withdrawn and defaulted licenses. Receivables will be set up as the letters are released by WTB and received in OMD. It is expected that all receivables will be set up and current within the first quarter of FY 2005. (Target: 12/31/2004)	In progress
			Finalized receivables will be tracked against the $12 million accrued at the end of FY 2003. (Target: 12/31/2004)	In progress
III. Cost Accounting				
A. Cost Accounting System	2000	2005	Convert to an integrated cost accounting system. (10/01/03)	Completed
			Re-define FCC units of output and modify BEAMS to account at that level. (Target: 06/30/05)	Planning
B. Cost Allocation Process and Cost Finding Techniques	2000	2004	Convert to an integrated cost accounting system. (10/01/03)	Completed
C. Matching Revenues to Costs	2000	2005	Develop a methodology for allocating revenues on the basis of cost incurred. (Target: 06/30/05)	Planning
			Modify BEAMS to implement the methodology. (Target: 06/30/05)	Under evaluation
IV. USF Financial Reporting: Accounting and Reporting Controls	2001	2005	Adopt an FCC order requiring USF components to adhere to Federal GAAP by 10/01/04. (9/26/03)	Completed
			Establish monthly meetings to discuss financial reporting issues. (Completed, but monthly meetings are ongoing)	Completed
			Obtain copies of the USAC policies and procedures for quick reference. (6/30/04)	Completed
			Monitor and evaluate the component's implementation of Federal GAAP compliant accounting systems. (Target: 06/30/05)	In progress

Material Weakness (Identified in the FY 2003 Financial Statement Audit Report on Internal Control)	FY First Identified	Targeted Corrective Action	Milestones for Corrective Action	Status
V. Information Technology (IT)				
A. Compliance with OMB Circular No. A-130 Requirement for a Comprehensive Security Plan	1999	2004	Complete the Security Plan for one of the major application systems. (6/09/04)	Completed
			Complete system for periodic reviews. (2/23/03).	Completed
			Complete risk assessments for all major FCC applications and networks. (9/24/2004)	Completed
			Issue certification and accreditation for all critical FCC systems and networks. (9/24/04)	Completed
			Revise existing Commission-wide security to include new requirements set-forth in FISMA. (Target: 2/28/05).	In progress
			Enhance audit trail capability. (Target: 2/28/05)	Planning
B. Accelerate Efforts to Develop and Test FCC's Contingency Plan	1999	2004	Complete testing and training on Disaster Recovery Plan (DRP). (5/17/04)	Completed
C. Strengthen the Password Controls for USF Major Applications to Comply with FIPS PUBS 112 Password Usage	2003	2004	Implement password changes to comply with requirements. (9/30/04)	Completed
D. Perform Risk Assessments and Develop Security Plans for all USF Major Applications to Ensure USF Compliance with OMB Circular No. A-130 Requirements	2003	2005	Complete the FFMIA, OMB, and NIST requirements gap analysis. (10/31/04)	Completed
			Develop a risk assessment and security plan for each major application and network. (10/31/04)	Completed
			Remediate manageable discrepancies between the plans and the systems state. (10/31/04)	Completed
E. Periodically Review and Update the Disaster Recovery Manual and Test Results for the USF	2003	2005	See section V.D. above. (11/04)	Completed

Exhibit 2: FMFIA Non-Conformances

Non-Conformances (Identified in the FY 2003 Financial Statement Audit Report on Compliance with Laws and Regulations)	**FY First Identified**	**Targeted Corrective Action**	**Milestones for Corrective Action**	**Status**
I. Chief Financial Officers Act of 1990 A. FCC's financial management systems do not comply with certain accounting standards and requirements, and internal control standards. B. FCC's financial management system is not fully integrated. C. Direction, policy guidance memorandum for FCC's financial statement preparation and oversight of the reporting components' financial operations are inadequate.	1999		See Sections I. through V. in Material Weaknesses Milestones for Corrective Action.	
II. OMB Circular No. A-129, *Policies for Federal Credit Programs and Non-Tax Receivables*				
A. Required loan documentation was not found for Narrowband licenses.	1999	2004	Licenses began as payment plans and were subsequently brought under credit reform. All 11 licenses have defaulted and documents will never be obtained.	Completed
III. Debt Collection Improvement Act of 1996 A. Reportable conditions – FCC needs to develop TROR policies and procedures to include the Treasury referral requirement B. Refer debt within 180 days C. Perform delinquency debt letter procedures	2002	2004	Establish DCIA procedures with outside reporting components. (12/31/03).	Completed
IV. Federal Financial Management Improvement Act of 1996				
A. Integrated Financial Management System	1999		See Section I.A. in the Material Weaknesses Milestones for Corrective Action.	
B. Agency-wide Financial Information Classification Structure	2000		See Section I.D. in the Material Weaknesses Milestones for Corrective Action.	
C. Security	1999		See Section V. in the Material Weaknesses Milestones for Corrective Action.	
V. Federal Accounting Standards A. FCC was not able to produce managerial cost Information consistent with standards in the SFFAS No. 4. B. Cost Allocation Process and Cost Finding Techniques. C. Matching Revenues to Costs.	2000		See Section III. in the Material Weaknesses Milestones for Corrective Action.	
VI. U.S. Standard General Ledger at Transaction Level			See Section I.C. and I.D. in the Material Weaknesses Milestones for Corrective Action.	
A. Federal financial system setup and posting models do not fully comply with the transaction posting models.	1999			
B. Accounting transactions of the reporting components were not recorded in a manner consistent with the account definitions and posting models/attributes.	2000			

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2. Program Performance

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

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BROADBAND

Strategic Goal:

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

Broadband provides a high-speed connection enabling consumers to access an ever-increasing array of information, applications and services that are fundamental to the communications revolution. The technology offers consumers access to vast amounts of data, telephony applications, streaming video, music, entertainment options, games, and commerce - enabling improved interactions among people. Moreover, broadband networks reduce geographic barriers to information and bypass information intermediaries.

Broadband deployment and adoption are on the rise. While adoption of broadband continues to be in early stages, providers increasingly are offering services with increasing speed and functionality, and consumers increasingly have choices available to them. Subscribership to broadband services continues to grow steadily. Existing and emerging technologies are closing the gaps in access for certain groups of consumers, including those in rural areas. In addition, consumer demand for increased connection speeds should lead to future availability of network services with greater broadband speeds. In its effort to expand the availability of broadband services, the FCC has established three outcome indicators to measure its progress.

Performance Goal

- Broaden the deployment technologies across the United States and globally

Outcome Indicators

- Increasing access to broadband services
- Increasing access to broadband services and devices across multiple platforms: DSL, cable modem, satellite, terrestrial wireless, etc.
- Increasing number of types of unlicensed/licensed wireless broadband devices

HIGHLIGHTS

- Advanced Services Inquiry – Released Fourth Report to Congress concluding that advanced telecommunications capability (broadband) is being made available to all Americans on a reasonable and timely basis.
- Local Telephone Competition and Broadband Reporting Notice of Proposed Rulemaking (NPRM) – Released rulemaking seeking comment on extending the Form 477 local competition and broadband data gathering program for five years beyond the current March 2005 sunset and proposing specified improvements.
- Triennial Review Order – Established new limited unbundling regime for Fiber-to-the-Home and Hybrid Fiber-Copper Loops that maximizes incentives for deployment of broadband facilities by incumbent local exchange carriers and other entrants. The D.C. Circuit upheld this part of the Triennial Review Order.
- Voice over Internet Protocol (VoIP) Petitions – Resolved the Pulver Free World Dial Up Proceeding and the AT&T Internet Protocol (IP) Telephony Petitions clarifying regulatory status of VoIP services in question.
- VoIP Proceedings – Released for comment the IP Enabled Services proposed rulemaking, SBC VoIP Petition for a Waiver of the Commission's Numbering Rules, Inflexion Communications Petition for a Declaratory Ruling, Federal Bureau of Investigation's (FBI) Communications Assistance to Law Enforcement Act (CALEA) Petition, SBC's IP Platform Forbearance Petition, and Level 3's Petition for Forbearance. *See* Competition Section.
- BellSouth Petition – Released for comment BellSouth petition seeking declaratory ruling that State Commissions may not regulate broadband Internet Access Services by requiring BellSouth to provide such services to Competitive Local Exchange Carrier (CLEC) Voice Customers.
- VoIP Litigation – Filed Amicus briefs before 2nd and 8th Circuits in litigations reviewing the regulatory status of the Vonage VoIP over broadband service.
- VoIP Solution Summits – Hosted Solution Summits: VoIP and Access by Individuals with Disabilities, Global Roundtable Discussion on IP Based Services, and Voice over IP Forum.
- Rural Health Care – Expanded availability of funding to subsidize provision of broadband to medically underserved communities in rural areas.
- Schools and Libraries – Adopted measures to protect against waste, fraud and abuse in program that supports broadband for eligible schools and libraries.
- Cable Modem Service – Filed Petition for Writ of Certiorari with the Supreme Court for review of the judicial decision on the 2001 Declaratory Ruling that cable modem service should be classified as an information service. Continue to evaluate implications of current legal status for the cable modem service.
- Advanced Wireless Services (AWS) – Allocated and established licensing rules for 90 megahertz of spectrum that can be used for advanced wireless services; evaluating additional spectrum for AWS use. Worked with National Telecommunications and Information Administration (NTIA) on issues related to relocation of Government incumbents. On September 9, 2004, the FCC proposed an additional 20 MHz of spectrum that can be used to offer a variety of broadband and AWS, potentially including "third generation" wireless services.
- Multichannel Distribution Service (MDS) & Instructional Television Fixed Service (ITFS) – Adopted new rules to provide a less complicated and more flexible structure for the 2.5 GHz band. The MDS and ITFS services were renamed the Broadband Radio Service and the

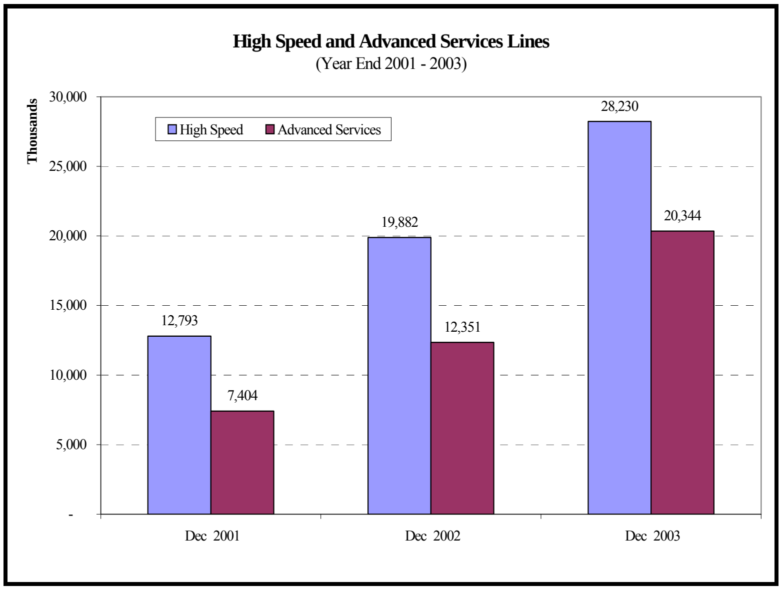
Educational Radio Service, respectively, which more accurately describe the kind of services the Commission anticipates in this band.

- 70, 80, 90 Gigahertz (GHz) Bands – Established innovative framework for allowing commercial use of spectrum in the 70, 80, 90 GHz bands. Granted the first licenses for this service.
- Secondary Markets – Adopted new rules to promote the use of secondary markets for companies and to provide more commercial flexibility in obtaining spectrum. In addition, the spectrum leasing initiative makes spectrum more easily accessible to wireless operators interested in serving niche markets.
- Rural America – Adopted Report & Order adopting several measures designed to promote access to spectrum, facilitate capital formation and increase licensee flexibility in order to facilitate the deployment of wireless services in rural areas.
- Partnerships with Other Agencies – Formed a strategic partnership with the Appalachian Regional Commission (ARC) to address telecommunications issues, including the benefits of broadband deployment, holding; for example, a two-day program in Tennessee, in cooperation with the Tennessee Regulatory Authority and the Rural Utilities Service (RUS) of the United States Department of Agriculture (USDA) highlighting telemedicine, homeland security, and policies to bring advanced services to Appalachia. The FCC is also launching similar, broad-based outreach efforts in the Delta Region of the country, in cooperation with the Delta Regional Authority.
- Unlicensed Spectrum 5 GHz Band – Made available an additional 255 megahertz (MHz) of spectrum in the 5.470 - 5.725 GHz band for unlicensed devices.
- Vacant TV Channels – Proposed rules to facilitate wireless broadband services using vacant TV channels.
- Wireless Broadband Access Task Force – Established the Wireless Broadband Access Task Force to identify potential policy changes that will further facilitate the deployment of wireless broadband services.
- Broadband Over Powerline (BPL) – Proposed rules for carrier current systems that provide access to broadband services using electric utility companies' power lines. BPL will provide broadband services into the homes and will give consumers a third choice in broadband providers.
- Satellite Broadband in the Ka-band – Licensed ten new Ka-band satellites, capable of providing broadband services.
- Additions to the Permitted List – Added four foreign licensed satellites to the Permitted List so that U.S. earth stations may immediately access those satellites.
- Introduction of New Ka-band Service – Authorized the launch of a Canadian Ka-band satellite that will enable WildBlue Communications to provide broadband service to U.S. consumers, starting in early 2005.
- Earth Stations on Vessels – Released a rulemaking for sharing spectrum between earth stations on vessels (ESVs) and terrestrial systems in order to provide broadband services to consumers and businesses on ocean liners and other ships.
- Forums – Hosted Rural Wireless Internet Service Provider (WISP) Forum, Wireless Broadband Forum and FCC Satellite Rural Forums to engage stakeholders on broadband issues.
- Technology Advisory Council – Convened the Technology Advisory Council to provide the FCC with industry advice on broadband, spectrum and VoIP.

PERFORMANCE MEASURE RESULTS

Increasing access to broadband services. (Outcome 1)

As part of its effort to measure the deployment of broadband services, the FCC classifies broadband in two ways: high-speed and advanced. High-speed lines deliver services at speeds exceeding 200 kilobits per second (kbps) in at least one direction, while advanced services lines deliver services at speeds exceeding 200 kbps in both directions. Providers with at least 250 high-speed connections in service in a state are required to report state-level data that demonstrate steady growth in subscribers to both high-speed and advanced services.



Source: *High Speed Services for Internet Access: Status as of December 31, 2003*, FCC Report (released June 8, 2004).

As of December 2003,[1] subscribers to high-speed services were present in 93 percent of the zip codes in the United States.[2] There were 28.2 million high-speed lines in service at the end of December 2003, 26.0 million of which were residential and small business.[3] This constitutes high-speed line subscriber growth of 20 percent increase over the previous six months.[4] Advanced service lines increased 25 percent during the second half of 2003, from 16.3 to 20.3 million lines.[5]

The FCC released a Fourth Report to Congress on September 9, 2004, concluding that advanced telecommunications capability, or broadband, is being made available to all Americans on a reasonable and timely basis.[6]

[1] Advanced Services information is gathered by the FCC on a six month cycle. December 2003 is the latest data released by the FCC. Data for the first half of 2004 should be released by the FCC soon.
[2] The report on *High Speed Services for Internet Access: Status as of December 31, 2003*, released June 8, 2004 is found at: http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/hspd0604.pdf, Table 12, page 18.
[3] Ibid., Table 1, page 6.
[4] Ibid., Table 3, page 8.
[5] Ibid., Table 2, page 7.
[6] The Fourth Report to Congress is found at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-04-208A7.pdf.

Increasing access to broadband services and devices across multiple platforms: DSL, cable modem, satellite, terrestrial wireless, etc. (Outcome 2)

Carriers report data on the number of high-speed lines in service in individual states, in total and by technology deployed in the last few feet to the subscriber's premises. Relatively large numbers of total high-speed lines in service are found in the more populous states. As of December 31, 2003, the most populous state, California, had the largest reported number of high-speed lines. The second, third, and fourth largest numbers of high-speed lines are reported for New York, Florida, and Texas, respectively.[7]

At the end of December 2003, high-speed lines connecting homes and businesses to the Internet increased by 42%, from 19.9 million lines to 28.2 million lines, from December 2002.

- Asymmetric digital subscriber lines (ADSL) in service increased by 47%, from 6.5 million to 9.5 million lines; and
- Cable modem connections increased by 45%, from 11.4 million lines to 16.4 million lines.[8]

The FCC continues to remove barriers to deployment, encourage investment in technologies that deliver advanced services, and vigorously promote competition.

U.S. Subscribers to High Speed Lines (x1000)

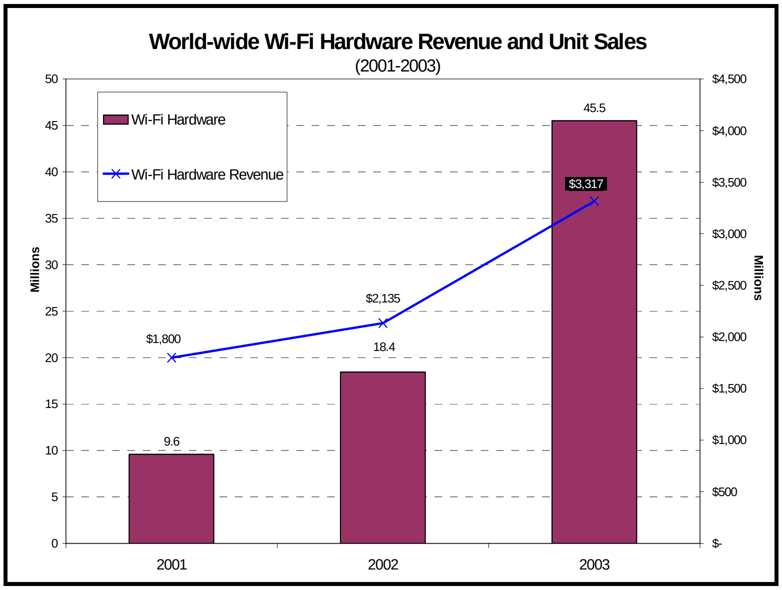
	Dec 2001	Dec 2002	Dec 2003
ADSL	3,948	6,472	9,509
Other Wireline	1,079	1,216	1,305
Coaxial Cable	7,060	11,369	16,446
Fiber	494	548	602
Satellite or Wireless	213	276	367
High Speed Total Lines	12,794	19,881	28,229

Source: *High Speed Services for Internet Access: Status as of December 31, 2003,* FCC Report (released June 8, 2004).

[7] The report on *High Speed Services for Internet Access: Status as of December 31, 2003*, released June 8, 2004, is found at: http://www.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/IAD/hspd0604.pdf, Table 7, page 12.

[8] Ibid., Table 1, page 6. Note that percentages are based on the totals included in Table 1.

Increasing number of types of unlicensed/licensed wireless broadband devices. (Outcome 3)



Sources: In-Stat/MDR, May 2004. "Wi-Fi" collectively refers to the Institute of Electrical and Electronic Engineers' suite of wireless networking protocols 802.11b, 802.11g, and 802.11a.

The past year witnessed substantial growth in "Wi-Fi" devices and services. Wi-Fi (short for "wireless fidelity") is a trademark owned by the Wi-Fi Alliance which refers to the Institute of Electrical and Electronic Engineers' (IEEE) suite of wireless local area network (WLAN) protocols, including 802.11b, 802.11a, and 802.11g. The success of Wi-Fi is evidenced by the integration of Wi-Fi capabilities into laptop computers and personal digital assistants (PDAs) as standard features. Key to these efforts has been the implementation of Wi-Fi in integrated circuits and devices. Analysts indicate that the Wi-Fi hardware market achieved staggering growth in 2003. This success has been driven by the availability of Wi-Fi products at low and declining prices. Even as the standards-based products were rolled out with speeds of 11 Mbps and 54 Mbps, numerous vendors introduced enhancements to double access speeds to a maximum of 108 Mbps.

This technology is rapidly gaining acceptance in many companies and homes as an alternative to a wired LAN. The number of Wi-Fi access points or "hotspots" grew tremendously, providing Internet access in public places such as airports, hotels, and shopping malls. Similar to hotspots, the number of companies providing wireless Internet access (wireless ISPs or WISPs) grew. One trade magazine listed 2,273 WISPs in the U.S. as of August 2004.

Beyond Wi-Fi, a new standard called WiMax is being developed. WiMax includes fixed systems employing a point-to-multipoint architecture operating between 2 GHz and 66 GHz. WiMax is capable of transmitting network signals covering in excess of 30 miles of linear service area, which is much greater than Wi-Fi's coverage area. It provides multiple shared data rates of up to 75 Mbps. WiMax has the potential to alter and further accelerate the evolution of broadband services. Analysts suggest that WiMax, although still in an early state, could complement or even supplant the development of Wi-Fi networks in the long run. It is anticipated that new standards for wireless networks will incorporate both roaming and handoff capabilities, which will further enhance the potential for broadband fixed and mobile applications in both licensed and license-exempt spectrum.

The Commission's Part 15 Rules provide for limited-range use of ultra-wideband (UWB) communications at potential rates of gigahertz bandwidths which may be extremely attractive for large bandwidth applications and the creation of Personal Area Networks.

Several mobile wireless carriers are deploying high-speed mobile Internet access to laptops, PDAs, and mobile devices using code division multiple access (CDMA) 1x evolution-data only (EV-DO) and wideband CDMA (WCDMA) technologies. EV-DO increases maximum data transfer speeds to 2 Mbps, and typical, user-experienced download speeds range from 300 to 500 kbps. WCDMA allows maximum downstream data speeds of up to 2 Mbps, and typical user-experienced speeds of 220-320 kbps. Services are currently being offered in Washington, D.C, San Diego, Seattle, San Francisco, Phoenix, and Detroit;

services in additional markets are expected to launch in the second half of 2004. Other carriers have taken advantage of Orthogonal Frequency Division Multiplexing (OFDM) technology to initiate service particularly in small communities.

Several carriers use the spectrum above 10 GHz – specifically the 24 GHz, 39 GHz, and Local Multichannel Distribution Service (LMDS) bands, often referred to as the "upperbands" – to offer fixed wireless broadband services. Upperband technologies require a direct line-of-sight between the transmitter and the receiver. The major upperband carriers have begun to focus on providing backhaul transport and private line telecommunications services to other carriers and large business customers.

PERFORMANCE RESULTS AT-A-GLANCE

BROADBAND FCC 2004 Performance Measure Scorecard			
Output Activities	**Met Goal**	**Did Not Meet Goal**	**Data Not Available**
1. Conduct rulemakings/issue and vigorously enforce regulations that influence the deployment and adoption of broadband technologies.	X		
2. Review and, if necessary, adjust the definition of what constitutes broadband.	X		
3. Continue to measure the deployment of broadband technology, particularly to rural America.	X		
4. Take further action in ongoing rulemaking proceeding to evaluate Broadband over Power Lines.	X		
5. Continue to facilitate access to spectrum in order to encourage deployment of new and innovative broadband services.	X		
6. Create and maintain a dialogue with regulators at the state, local and tribal level and around the globe on policies to promote broadband development.	X		

FUTURE PERFORMANCE MEASURES

FY 2005 - 2006 Outcome Indicators:

» Increasing access to and adoption of broadband services and devices across multiple platforms: DSL, cable modem, powerline, fiber, terrestrial wireless, satellite, etc.

FY05 Output 1 – Adopt regulations that encourage deployment of broadband technologies.

FY05 Output 2 – Review and, if necessary, adjust the definition of what constitutes broadband.

FY05 Output 3 – Continue to measure the deployment of broadband technology, particularly to rural America.

FY05 Output 4 – Improve access to broadband services by facilitating the deployment of IP-enabled services, such as VoIP.

FY05 Output 5 – Vigorously defend and enforce regulations that influence the deployment and adoption of broadband technologies.

FY05 Output 6 – Take further action in ongoing rulemaking proceeding, related engineering studies, and international working groups to evaluate Broadband over Power Lines.

FY05 Output 7 – Maintain a dialogue with regulators at the state, local, tribal, and global levels as well as with research communities and industry groups on policies to promote broadband development.

FY 05 Output 8 – Adopt or modify universal service regulations to encourage the development of broadband and prevent waste, fraud, and abuse.

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COMPETITION

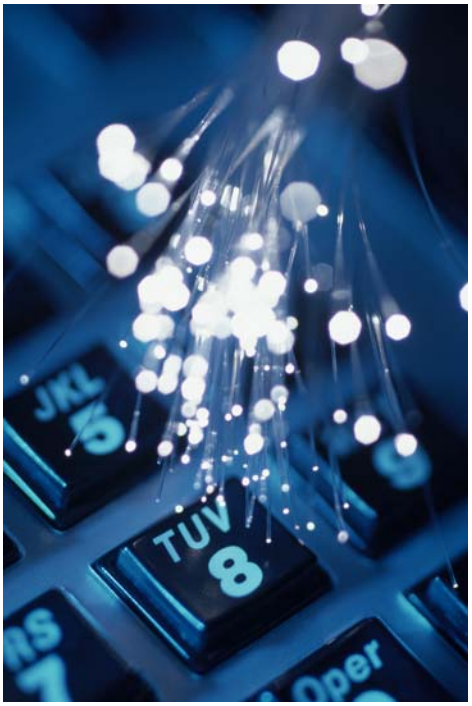
Strategic Goal:

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

The FCC's competition policies help to create a level playing field for American telecommunications companies in the national and global marketplace. Moreover, they promote the American consumer's ability to purchase the highest quality telecommunications services at fair and reasonable rates.

Pursuant to the Telecommunications Act, the FCC is moving decisively to remove statutory, regulatory, economic, and operational barriers to competition so that consumers have meaningful choice in providers and services. The FCC seeks to:

1) Foster sustainable competition across the entire telecommunications sector, including intermodal competition among providers using wireline, wireless, cable and satellite platforms;
2) Facilitate an effective wholesale market through interconnection policy and other competition-related rules;



3) Promote and advance universal service, to ensure that consumers in all regions have access to quality telecommunications and information services at affordable rates;
4) Ensure that consumers have choices among voice, video and data services and are protected from anticompetitive behavior in an increasingly competitive telecommunications landscape; and
5) Continually evaluate and report on the competitive environment for communications services.

Performance Goals

- Ensure American consumers can choose among multiple reliable and affordable means of communications
- Ensure that all American consumers have and retain wireless and wireline phone services

- Create and maintain a dialogue with regulators around the globe to foster and sustain the creation of pro-competitive foreign and domestic markets
- Create and maintain a dialogue with American consumers so that they are informed about their rights, choices, and responsibilities, and ensure these rights through strong enforcement

Outcome Indicators

- Increasing percentage of households with competing providers for multichannel video programming and information services
- Increasing number of consumers and businesses have a choice among wireless and wireline service providers
- Lower relative price for wireless and wireline services
- Decreasing price for international calls

HIGHLIGHTS

- Multichannel Video Program Distributor (MVPD) Competition – Authorized several providers to initiate, expand and improve direct broadcast satellite services available to American consumers and have auctioned additional orbital locations for DBS providers.
- Wireline Telephone Competition – Launched a proceeding to establish new rules governing certain unbundled network elements (UNEs) and, at the same time, established interim rules addressing the sharing of those facilities. The Commission is also undertaking a review of the pricing methodology applicable to unbundled network elements. The Commission also vigorously enforced its telephone competition rules, including, for example, a $9 million forfeiture paid by a Bell Operating Company and a $12 million damage award against a Bell Operating Company.
- Voice over Internet Protocol – In March, 2004, released the *IP-Enabled Services NPRM*, initiating a comprehensive review of the regulatory treatment of new and emerging services and applications using IP protocol. The preceding month, the FCC ruled that one innovative service using VoIP, pulver.com's "Free World Dialup," is an unregulated information service.
- Advanced Wireless Services (AWS) – Allocated and established licensing rules for 90 megahertz of spectrum that can be used for advanced wireless services; evaluating additional spectrum for AWS use. Worked with NTIA on issues related to relocation of Government incumbents. On September 9, 2004, the FCC proposed an additional 20 MHz of spectrum that can be used to offer a variety of broadband and AWS, potentially including "third generation" wireless services.
- Local Telephone Competition and Broadband Reporting Notice of Proposed Rulemaking (NPRM) – Released rulemaking seeking comment on extending the Form 477 local competition and broadband data gathering program for five years beyond the current March 2005 sunset and proposing specified improvements.
- Universal Service – Strengthened the FCC's audit and oversight rules related to the schools and libraries program; revised the rural health care support mechanism to expand beneficiary participation in this program; and issued rules expanding the eligibility criteria for participation in the Low Income program and further safeguarding this program against fraud, waste and abuse.

- Local Number Portability – Required wireless carriers to support local number portability (LNP) in November, 2003. By allowing consumers to keep their numbers when switching wireless carriers, or when switching from wireline to wireless carriers, LNP spurs competition based on price, service quality and innovative product offerings. On September 16, 2004, the Commission released a Second Further Notice of Proposed Rulemaking (FCC 04-217) seeking comment on the North American Numbering Council's recommendation for reducing the Intermodal porting interval. Comments are due on November 17, 2004, and reply comments are due on December 17, 2004.

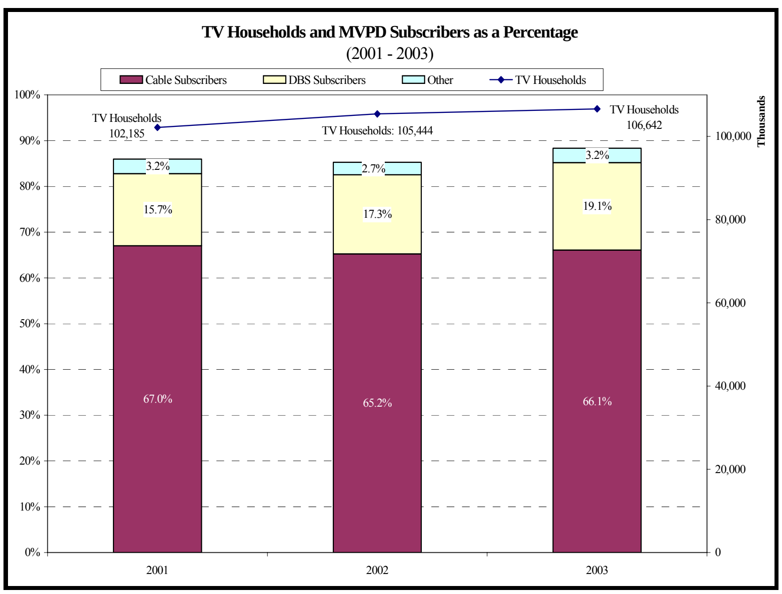
- International Issues – In the *International Settlements Policy Reform Report and Order*, took steps to lower costs to U.S. consumers by giving U.S. carriers more flexibility in commercial negotiations on settlement rates and by adopting safeguards to prevent anticompetitive conduct by foreign carriers.

- Protecting and Empowering Consumers – Issued rules prohibiting unsolicited commercial messages ("spam") to wireless devices, and strengthened "slamming" rules that protect consumers from having their telephone service switched to a different carrier without their permission. In addition to approximately $9 million in formal enforcement of these and other consumer protection rules such as junk fax and do-not-call restrictions, the FCC handled over one million informal complaints and inquiries in FY 2004. As a result of case-by-case intervention, the FCC facilitated that approximately $8 million in credits or refunds issued to consumers.

PERFORMANCE MEASURE RESULTS

Increasing percentage of households with competing providers for multichannel video programming and information services. (Outcome 1)

As of June 2003, 88.4% of the 106.6 million total television households subscribed to a multichannel video programming distribution service, an increase of 3.2 percentage points over the 85.2% of all TV households that were MVPD subscribers in June 2002. In June 2003, 66.1% of all TV households were cable subscribers; 19.1% were direct broadcast satellite subscribers; and 3.2% subscribed to other MVPD services. In June 2003, non-cable MVPD subscribers represented 22.3% of all TV households, a 2.3 percentage point increase over the 20% reported in June 2002.[9]



Source: "Tenth Annual Report on the Status of Competition in the Market for Delivery of Video Programming," released January 28, 2004.

On June 10, 2004, the FCC adopted a Notice of Inquiry requesting information and comment for the

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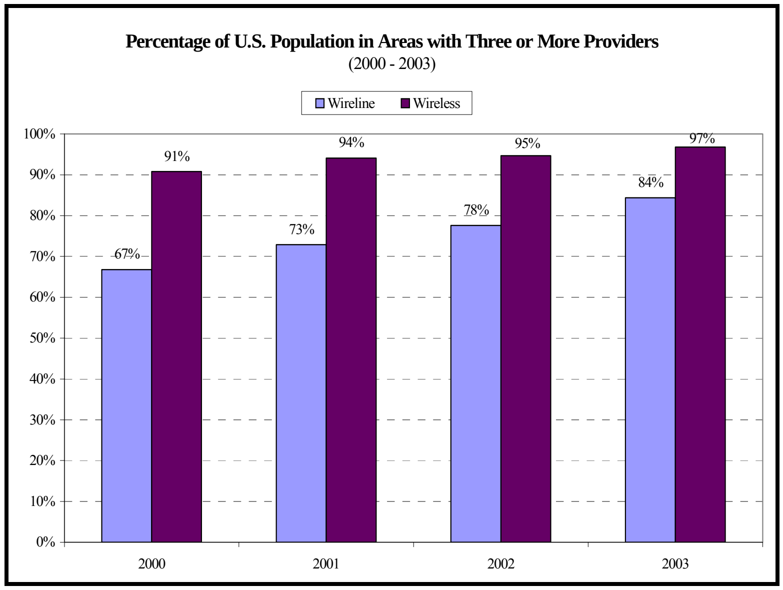
[9] "Tenth Annual Report on the Status of Competition in the Market for the Delivery of Video Programming," released January 28, 2004, can be found at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-04-5A1.pdf, Table B-1, page 115.

Commission's *2004 Report to Congress* on competition in the video marketplace pursuant to section 628(g) of the Act.[10] The FCC is evaluating competition in that marketplace, changes in the market since the *2003 Report*, prospects for new entrants to that market, factors that have facilitated or impeded competition, and the effect of competition on industry groups and consumers. The FCC will update its assessment of competition and report on changes in the competitive environment over the last year in the *2004 Report,* planned for completion by the end of 2004.

Increasing number of consumers and businesses have a choice among wireless and wireline service providers. (Outcome 2)

The accompanying chart reflects a steady increase in the percentage of U.S. consumers that can choose between multiple wireline and wireless service providers.[11] 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 84% in 2003. Similarly, the percentage of the U.S. population living in counties served by three or more wireless carriers has climbed from 91% in 2000 to 97% in 2003.



Sources: *Ninth Annual CMRS Competition Report*, FCC 04-216 (rel. September 28, 2004), Appendix D, Table 10; Local Telephone Competition: Status as of December 31, 2003, (rel. June 18, 2004), Table 15.

The Commission took an important step in promoting competition and consumer choice in November 2003, by requiring wireless carriers to support local number portability. Consumers can now keep their telephone numbers when switching between wireless carriers, or even between wireline and wireless carriers. The FCC is currently considering a Notice of Proposed Rulemaking addressing certain implementation issues that remain.

The FCC has worked hard in 2004 to ensure that local wireline telephone competition evolves in a manner that is sustainable and ultimately benefits consumers. In response to an appeals court decision in 2004 overturning a portion of the FCC's network element unbundling rules, the Commission encouraged wireline carriers to reach commercial agreements governing these facilities. Although these negotiations led to several notable agreements, including Qwest-Covad and Qwest-MCI deals, the absence of broadly-based industry consensus led the Commission to issue interim rules, at the same time as it launched a proceeding in 2004 to establish new unbundling rules. The Commission is also undertaking a comprehensive review of its total element long-run incremental cost (TELRIC) pricing methodology, which governs the pricing of unbundled network elements.

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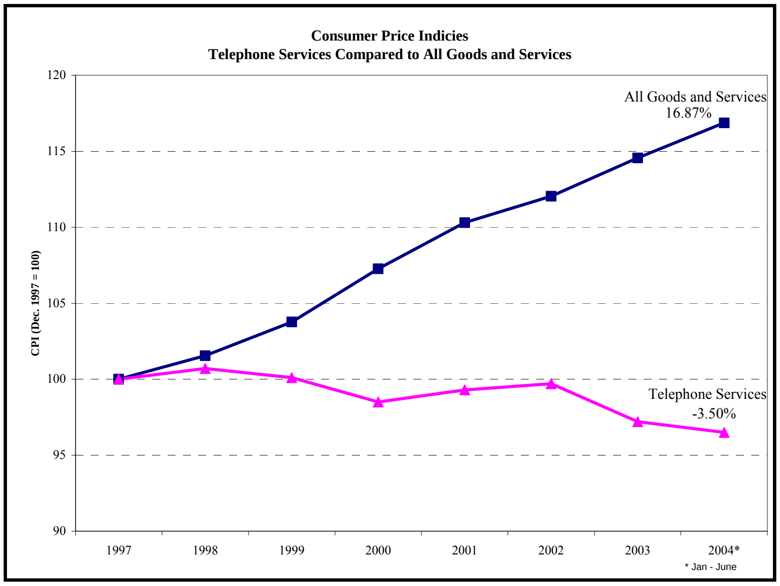
[10] The NOI can be found on the Internet at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-04-136A1.pdf.

[11] Sources: *Ninth Annual CMRS Competition Report*, FCC 04-216 (rel. September 28, 2004), Appendix D, Table 10; *Local Telephone Competition: Status as of December 31, 2003*, (rel. June 18, 2004), Table 15. While the data for wireless and wireline providers are loosely comparable, they are reported for different geographic areas: the wireline data reflect the percentage of U.S. households living in *zip codes* served by three or more wireline carriers, and the wireless data reflect the percentage of U.S. population living in *counties* served by three or more wireless carriers.

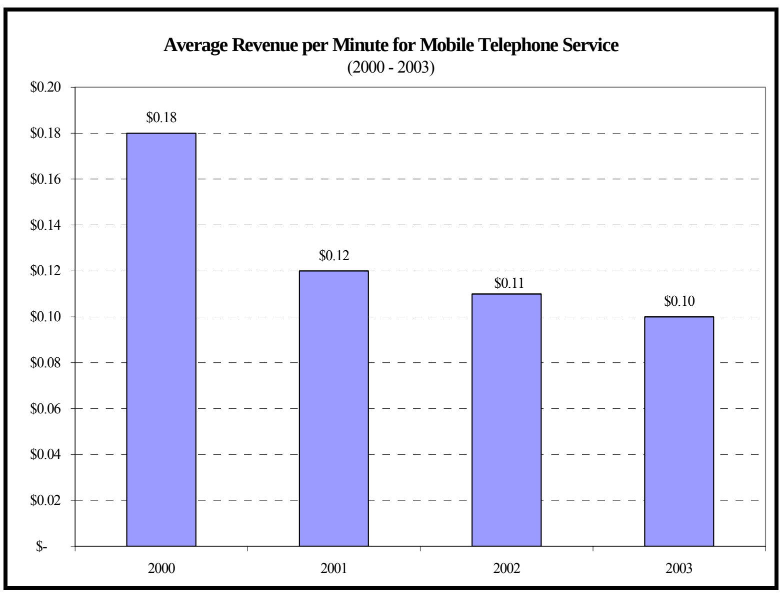
Lower relative price for wireless and wireline services. (Outcome 3)

The consumer price for telephone services has declined over the last six years, and particularly in the past year, when compared to the price of other goods and services. The chart opposite 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 17% increase in the CPI for all goods and services (from 100.2 to 117.2), the Telephone service price index has declined by 4% (99.9 to 95.9) over the past six years (January 1998 to May 2004).



Source: *Bureau of Labor Statistics*. The CPI index of telephone services is based on a market basket intended to represent the telephone-related expenditures of a typical urban household, includes local, long distance, and cellular services.

The average price of wireless telephone calls has fallen over this period as well. As illustrated by the accompanying chart, the average revenue per-minute for mobile telephone service, including both individual and business users, has fallen over the past four years, down to 10 cents per minute in 2003.[12]

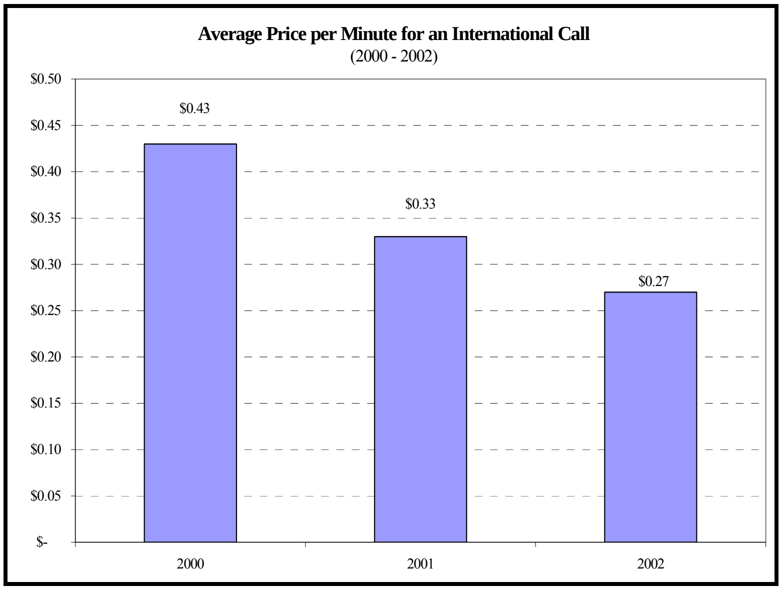


Source: Cellular Telecommunications and Internet Association, *Semi-Annual Wireless Industry Survey* < http://www.wow-com/industry/stats/surveys/ >.

[12] Source: Cellular Telecommunications and Internet Association, *Semi-Annual Wireless Industry Survey* <http://files.ctia.org/pdf/CTIA_Semiannual_Survey_YE2003.pdf>.

Decreasing price for international calls. (Outcome 4)

In March 2004, the FCC released a Report & Order altering how the International Settlements Policy (ISP) is applied, and modifying and clarifying safeguards to prevent anti-competitive conduct by foreign carriers. This Report & Order streamlines the FCC's ISP to give U.S. carriers more flexibility in commercial negotiations with foreign carriers on settlement rates to achieve lower costs to U.S. consumers.[13]



Source: *International Telecommunications Data Report* (Annual Section 43.61), January 2002.

The Commission took additional actions to protect competition on international routes to ensure that calls continue to be priced at market-based rates. Among these were actions addressing anticompetitive behavior of certain Philippine carriers, culminating in an FCC Order in June 2004, which resulted in the restoration of U.S. carriers' circuits.[14]

Staff of the FCC's International Bureau also engages in dialogues with its regulatory counterparts throughout the world on a regular basis, through leadership in the International Telecommunications Union (ITU), participation in international conferences, and the FCC's International Visitors Program. Through the ITU's multilateral study groups, for example, FCC staff have supported the maintenance of a market-driven approach to Internet traffic flows, and encouraged other regulators to take steps to facilitate global competition.

[13] The Report & Order can be found at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-04-53A1.pdf.
[14] The Order can be found at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-04-112A1.pdf.

PERFORMANCE RESULTS AT-A-GLANCE

COMPETITION FCC 2004 Performance Measure Scorecard			
Output Activities	**Met Goal**	**Did Not Meet Goal**	**Data Not Available**
1. Foster the pro-competitive goals of the Telecommunications Act by reforming total element long-run incremental cost (TELRIC), intercarrier compensation, and universal service, examining voice over internet protocol, local number portability, forbearance, biennial review proceeding, and implementing and enforcing provisions of the unbundled network element (UNE) proceeding.	X		
2. Adopt and enforce regulations which streamline and encourage reliable affordable communications services by multiple providers.	X		
3. Adopt and enforce rules to streamline administration of the Universal Service support mechanism and protect against waste, fraud, and abuse.	X		
4. Conduct quarterly reviews of carrier compliance to ensure continuity of service requirements are met.	X		
5. Increase consumer awareness of their rights in relation to phone service and enforce regulations to ensure those rights.	X		
6. Maintain a dialogue with regulators around the globe on competition issues.	X		
7. Review and analyze merger and transfers of control requests to ensure that consumers retain reliable and affordable communications services that serve the public interest.	X		
8. Adopt and implement policies that will decrease the price of international calls.	X		
9. Initiate international reporting reform.	X		

FUTURE PERFORMANCE MEASURES

FY 2005 - 2006 Outcome Indicators:

» Increasing percentage of households with competitive choices for multichannel video programming

» Increasing number of consumers and businesses with a choice among wireless and wireline voice and data service providers

» Competitive pricing for voice, data, and video services

FY05 Output 1 – Adopt and defend regulations that streamline and encourage reliable and affordable provision of multichannel video programming services by multiple providers.

FY05 Output 2 – Adopt, defend, and enforce rules to streamline administration of the universal service support mechanism, ensure fair and equitable distribution of funds, and protect against waste, fraud, and abuse.

FY05 Output 3 – Implement, defend, and enforce Unbundled Network Elements rules, including broadband aspects, to increase competition among local exchange carriers.

FY05 Output 4 – Adopt, defend, and enforce regulations that streamline and encourage reliable and affordable communications services by multiple providers.

FY05 Output 5 – Review and analyze merger and transfer of control requests to ensure that consumers retain reliable and affordable communications services that serve the public interest.

FY05 Output 6 – Increase consumers' awareness of their rights in relation to communications service and enforce regulations to ensure those rights.

FY05 Output 7 – Maintain a dialogue with regulators at the state, local, and global levels as well as with research communities and industry groups on competition policies and communications technologies.

FY05 Output 8 – Establish policies that promote entry of competitors using other platforms.

FY05 Output 9 – Complete rulemakings and issue regulations that further the accessibility of the telecommunications network to people with disabilities.

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SPECTRUM

Strategic Goal:

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

The Commission is committed to creating a policy environment that fosters rapid deployment of innovative and efficient radio communications technologies and services. The promise of such emerging communications technologies could mean:

- Having the emergency dispatcher know exactly where your teenager is when she calls 911 for help from a wireless phone (Enhanced 911);
- Ubiquitous, mobile broadband connections via your Next Generation wireless phone that allow you to participate in a video conference with people around the world, wherever you travel; and
- Using a wireless network to link computers, an internet connection, a color printer, and a stereo though out your house.

These and hundreds of other services, however, are dependent on the availability of spectrum. Spectrum refers to the entire range of electromagnetic radio frequencies used to transmit sound, data, and video. The FCC and the National Telecommunications and Information Administration share responsibility for regulating spectrum uses. NTIA manages spectrum used by the Federal Government (e.g., air traffic control and national defense), while the FCC is responsible for regulating spectrum used by others, including individuals (e.g., garage door openers and general mobile radio service), private organizations (e.g., radio and television broadcasters and cellular and PCS operators), and public safety and health officials (e.g., police and emergency medical technicians).

Because there is a growing demand for rival uses of spectrum, creating rules to effectively distribute available spectrum is a critically important strategic objective for the FCC and the NTIA. FCC's objectives are to:

- Advance spectrum reform by developing and implementing market-oriented allocation and assignment reform policies;
- Vigorously protect against harmful interference and enforce public safety-related rules;
- Conduct effective and timely licensing activities that encourage efficient use of the spectrum; and

- Provide adequate spectrum and improve interoperability for better public safety and commercial purposes.

Performance Goals

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

Outcome Indicators

- Increasing number of approvals for enhanced telecommunications equipment
- Facilitate deployment of new or existing services or devices that make efficient use of spectrum
- Effectively advance U.S. positions on spectrum in international negotiations and enforcement of treaties (number of U.S. positions partially or fully adopted)

HIGHLIGHTS

Proceedings

- Interference Temperature NOI/NPRM – Began an inquiry regarding the "Interference Temperature" approach for quantifying interference in order to create new opportunities for spectrum uses.
- Smart Cognitive Radios – Issued a Notice of Proposed Rulemaking addressing cognitive, or "smart," radio technologies that will allow a radio device to adapt its spectrum use in response to its operating environment to improve access to spectrum and efficiency of spectrum use.[15]
- Ultra-wideband – Adopted final rules to permit the operation of Ultra-wideband radio systems on an unlicensed basis under Part 15 of the Commission's rules. UWB technology can be used for a wide variety of new applications, including imaging systems, vehicle radars, location devices, security systems, and high speed, short range data communications products. The Commission also issued a Further Notice of Proposed Rulemaking to provide greater flexibility under the UWB rules. Finally, the Commission conducted a number of laboratory tests to understand the interference potential of the proposed new flexibility.
- Unlicensed Operation – Modified Commission rules for unlicensed devices to accommodate advanced technologies such as smart antennas that can make more efficient use of the unlicensed frequency bands. In addition, a number of changes to the rules were made to encourage development unlicensed wireless broadband service based on the Wi-Fi standard and other technologies, particularly in rural areas.
- Secondary Markets I and II – Completed two Secondary Markets Orders implementing and revising rules to introduce spectrum leasing in many wireless services (including a "private commons" option).

[15] The NPRM can be found at: http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-03-322A1.pdf.

- Satellite Earth Stations on Vessels – Initiated a rulemaking proceeding proposing rules for the use of satellite earth stations on vessels. ESVs offer the potential for more efficient use of the spectrum, while providing consumers the benefits of broadband services on cruise ships, cargo, and other large vessels.

- Big LEO Spectrum Sharing – Adopted a spectrum sharing plan for low-earth orbit mobile-satellite systems (Big LEOs) in the 1.6 GHz and 2.4 GHz bands. The spectrum sharing plan will increase the number of providers offering services to consumers over the same spectrum and promote the deployment of more innovative services to consumers.

- World Radiocommunication Conference 2007 (WRC-07) – Initiated its preparation process for the next World Radiocommunication Conference, which will be held in 2007. A WRC-07 Advisory Committee was established in October, 2003, along with five Informal Working Groups. The WRC-07 Advisory Committee's objective is to provide the FCC advice, technical support, and recommended proposals for the WRC-07.

- Wireless Broadband Services – Adopted a Notice of Proposed Rulemaking to facilitate the operation of wireless broadband services in the TV broadcast bands. The Notice proposed to allow unlicensed wireless broadband devices to operate in television channels at locations where specific TV channels are unused by broadcasters. Access to this spectrum by wireless internet service providers (WISPs) would improve their service range and allow them to reach new customers. Access to the spectrum would also offer broadcasters the opportunity to provide new services.

- NextWave – Settled longstanding and extensive litigation with NextWave Communications, Inc. over NextWave's broadband personal communication service licenses, making immediately available for other uses the vast majority of the spectrum that had been tied up in litigation since NextWave declared bankruptcy in 1998, and recouping appropriate value from NextWave for the U.S. Government.

Initiatives

- Spectrum Policy Task Force – Commenced a number of proceedings to implement the work of the Spectrum Policy Task Force which was established in 2002 to assist the Commission in identifying and evaluating changes in spectrum policy that will increase the public benefits derived from the use of the radio spectrum.

- Satellite Rural Forum – Held a Satellite Rural Forum titled "Making the Rural Connection," featuring panel discussions by experts, as well as demonstrations and exhibits, on consumer topics such as telemedicine and distance learning, public safety and homeland security, agriculture and farming, broadband access, information, and mass media entertainment. The Forum informed the public and users about the availability of services, encouraged development of new and innovative services and programs, and explored economic approaches to serving the communications needs of rural America.

- New Radio Frequency (RF) "Anechoic" Measurement Chamber – Constructed a chamber that allows FCC engineers to perform sophisticated RF measurements on consumer radio devices, such as cell phones, and on commercial devices, such as wall penetrating radars and wireless meter readers.

- Rural Wireless Internet Service Provider Showcase and Workshop – Hosted an open event to explore rural WISPs as a compelling solution for rural broadband service. The event also provided an opportunity for the Commission to learn what, if any, regulatory barriers stand in the way of rural WISP deployment.

PERFORMANCE MEASURE RESULTS

Increasing number of approvals for enhanced telecommunications equipment. (Outcome 1)

In general, the FCC must pre-approve all radio devices for use and sale through an authorization procedure ensuring that devices will not be marketed and available to the public unless they comply with the Commission's technical standards to avoid harmful interference. Certification requires a written application, including technical specifications, stating that the device complies with the FCC rules. The FCC may then certify the devices based on an engineering review, or may request samples and actually test the device. To help expedite the certification process, the FCC has authorized private organizations known as Telecommunication Certification Bodies (TCBs) to perform equipment authorizations on behalf of the FCC when the certification process is less complicated. Enhanced Telecommunications Equipment Authorizations are authorizations issued for new technologies.

Enhanced Telecommunications Equipment Authorizations

Issuer of Approval Grant	Total FY03	1Q2004	2Q2004	3Q2004	4Q2004	Total FY04
Telecommunications Certification Bodies (TCB)	4,945	1,266	1,434	1,479	1,705	5,884
FCC Equipment Authorization Services (EAS)	521	133	124	109	147	513
Total Authorizations	**5,466**	**1,399**	**1,558**	**1,588**	**1,852**	**6,397**
Source: OET Lab						

The number of authorizations indicates, at least approximately, the number of new devices and improvements likely to be on their way to the marketplace, since a manufacturer will only file for an authorization when it believes that it can successfully market a device. The above table demonstrates an increasing number of equipment authorizations since FY 2003, as well as an increasing percentage share of such device authorizations completed by TCBs. This implies reduced filing burdens on corporations hoping to market new types of radio equipment, which should promote increased spectrum use.

Facilitate deployment of new or existing services or devices that make efficient use of spectrum. (Outcome 2)

The Commission is responsible for four main processes involved in ensuring that spectrum is used in a manner to promote the growth and rapid deployment of innovative and efficient communications technologies and services. Those processes are:

- *Allocation.* Developing market-based policies for provisioning various bands for a particular use or uses that provide the maximum flexibility to allow for the introduction of new and advanced technologies.
- *Service Rules and Policy.* Ensuring that our rules for use coordination and interference avoidance provide: (1) maximum flexibility to allow new technologies and services and (2) certainty to allow investment in those technologies and services, and the greatest possible incentives for intense and efficient spectrum use.
- *Licensing.* Developing and implementing efficient auction and other licensing procedures to ensure that spectrum is made available to those who can use it as rapidly as possible.

- *Oversight.* Using audits, build-out requirements, and enforcement of our rules to ensure the efficient and effective use of spectrum.

The chart on the following page represents each of these processes and the proceedings the Commission has taken to advance the goal of efficient use of spectrum.

In November of 2002, the Commission's Spectrum Policy Task Force (SPTF) released its findings and recommendations concerning the necessary changes to modernizing spectrum policy to reflect changes in technology and markets. Implementing many of these recommendations is essential to effective allocation of spectrum bands. Commission staff initiated several proceedings which implement the recommendations made by the SPTF and reached agreements with other U.S. Government agencies and the ITU a framework for "Improving the International Spectrum Regulatory Framework," based on the SPTF's work.

The Commission has adopted policies increasing flexibility of spectrum use and encouraging future network investment, which are leading to expeditious deployment of new technologies and new services for a growing number of users. On October 6, 2003, the Commission released the Secondary Markets First Report and Order, which implemented rules to introduce spectrum leasing in many wireless services and to reduce the review time for transfer/assignment applications. In the Second Report and Order, the Commission expanded the availability of spectrum leasing to more wireless services and devices, and further streamlined the processing of spectrum lease applications and notifications, as well as traditional license transfers and assignments. The Second Report and Order also established a "private commons" option for licensees who wish to provide spectrum access to individuals or groups using advanced devices. As of September 30, 2004, the Commission received 87 spectrum lease filings under the new rules. In addition, the International Bureau proposed rules that will enable innovative satellite technologies, that would provide new broadband services to consumers, permit greater sharing in the mobile satellite service band, and promote efficient spectrum.

In overseeing the spectrum uses it regulates, the Commission devoted substantial resources in the past year to enforce the Commission's spectrum-related requirements. For instance, the Commission investigated 858 interference complaints, and shut down 249 "pirate," i.e., unauthorized, broadcasters. Furthermore, the Commission enforced its satellite milestone rules, which ensure that potential satellite operators actually are taking steps to use the spectrum that they have been assigned. As a result, several satellite licenses were revoked because of failure to reach a milestone and that spectrum was made available to others that are more likely to use it.

Facilitate deployment of new or existing services or devices that make efficient use of spectrum

Allocation

- WRC-07 preparations
- Public Safety access to 4.9 GHz band
- Above 28 MHz WRC implementation rules
- Advanced Wireless Service "3G" band
- Part 74 Rewrite
- Below 28 MHz WRC
- Amateur Service Allocation
- Sec. 337 Allocation and Assignment of New Public Safety Services Licenses
- 5.9 GHz Band (5.850-5.925 GHz band) for Dedicated Short-Range Communications (DSRC) in the Intelligent Transportation Systems (ITS) Radio Service
- Additional spectrum at 2 GHz for Advanced Wireless Services

Policy

- Service rules for 4.9GHz band for public safety
- Adopted flexible rules for MMDS/ITFS
- Big LEO-MSS and GPS operations
- Ancillary Terrestrial Component satellite rules
- Ka-Band NGSO service rules
- Satellite Licensing Reform rules
- Earth Stations on Vessels rules
- Unlicensed –National Info. Infrastructure (U-NII) Rules
- V-band proposed flexible rules
- Secondary Markets rules for Wireless Services
- Policies to promote access to wireless telecommunications services in rural areas
- 800 MHz Band Reconfiguration and Enhanced Best Practices Plan

Licensing

- MVDDS auction
- 24 GHz auction
- 900 MHz SMR auction
- Direct broadcast satellite auction
- New space and earth station licenses and modifications
- Schedule S automated form for satellite licensing
- Improved satellite fleet management
- Radio and TV licenses, renewals, and modifications
- Licensing of 70/80/90 GHz service for millimeter wave bands
- Implemented streamlined processing of transfer/assignment and spectrum leasing filings
- 700 MHz Regional Planning/State Executive Interoperability Committees

Oversight

- Spectrum audit of site-specific licenses in the 220-222 MHz band
- Satellite milestone review
- International satellite coordination
- Negotiations and coordination with Mexico and Canada
- Radio and TV rule and policy violations in the context of licensing
- Enforced regulations and investigated complaints

Potential Long-term Outcomes for Spectrum

In FY 2004, the Commission made significant progress in developing and implementing spectrum initiatives that contribute to overall performance goals for spectrum both domestically and internationally. Collectively, these activities promote:

- **Increased access to spectrum** by making new or more flexible spectrum available (via auction or other means) for public safety, broadband mobile and fixed, satellite and other uses, including unlicensed applications.
- **Expeditious delivery of service to consumers** through improved licensing mechanisms that utilize automation, encourage licensee due diligence and sharing of spectrum to further efficiency.
- **Deployment of new technologies and robust services** though enhanced performance standards, and other rules that will encourage future investment as well as research and development activities.

Efficiently advance U.S. positions on spectrum in international negotiations and enforcement of treaties (number of U.S. positions partially or fully adopted). (Outcome 3)

The Commission held regular discussions and reached new agreements with its counterparts in Canada and Mexico regarding the use of spectrum in U.S. border areas. These discussions continue in a number of areas, including the use of UHF television spectrum being recaptured as part of the digital television (DTV) conversion and new digital "In Band On Channel" audio broadcasting systems. A total of 39 new satellite coordination agreements, delineating how satellite spectrum will be shared without interference were reached with 16 administrations. In advancing the U.S. position, the Commission has worked with the State Department, Department of Defense, and the NTIA to develop and advance positions in the ITU. The ITU sponsors the World Radiocommunication Conferences (WRC) which are held approximately every three years. Outcomes at WRC establish how radio spectrum is to be used on a global basis, which guides U.S. spectrum usage. The Commission held a workshop and issued a report reviewing the success of its preparation efforts for the 2003 WRC. Following on this, the Commission initiated its preparation process for the next World Radiocommunication Conference, which will be held in 2007. A WRC-07 Advisory Committee was established, along with five Informal Working Groups, to provide the FCC advice, technical support, and recommended proposals. FCC staff represented the U.S. at nine WRC-07 preparatory meetings, including two CITEL (Comision Interamericana de Telecommunicaciones) meetings, the Asian Pacific Telecommunication Conference, three CEPT (European Conference of Postal and Telecommunications Administrations) conferences, an ITU-R meeting, and two ITU Conference Preparatory Group meetings. Commission staff also participated in ITU Study Group and Working Party meetings, providing valuable input into the preparations for WRC-07 and developing ITU recommendations on how spectrum should be used.

PERFORANCE RESULTS AT-A-GLANCE

SPECTRUM FCC 2004 Performance Measure Scorecard			
Output Activities	**Met Goal**	**Did Not Meet Goal**	**Data Not Available**
1. Continue implementation of recommendations made by the Spectrum Policy Task Force and take steps to improve the efficient and effective use of spectrum such as promoting the use of spectrum for new efficient technologies and systems.	X		
2. Increase the number of new spectrum users.	X		
3. Negotiate and enforce satellite and other coordination treaties with affected countries.	X		
4. Develop rules to permit the licensing of innovative satellite technologies.	X		
5. Advance U.S. positions on spectrum through the International Telecommunications Union and other fora, including preparations for WRC-07.	X		
6. Enforce satellite milestones.	X		
7. Encourage the deployment of new spectrum efficient technologies, including spread spectrum systems, ultra-wideband systems and cognitive radio.	X		
8. Enforce regulations and investigate complaints affecting communications systems and infrastructure.	X		
9. Construct anechoic test facility for making sensitive measurements for advanced equipment and systems at the Columbia Engineering Laboratory.	X		
10. Increase reliance on market-driven transactions to promote and facilitate efficient spectrum usage.	X		

FUTURE PERFORMANCE MEASURES

FY 2005 - 2006 Outcome Indicators:

- Deploying new or existing services or devices that make efficient use of spectrum
- Advancing U.S. positions on spectrum in international negotiations and enforcement of treaties (number of U.S. positions partially or fully adopted)

FY05 Output 1 – Improve the efficient use of spectrum, including implementation of recommendations made by the Spectrum Policy Task Force.

FY05 Output 2 – Develop rules for spectrum reclaimed during the digital television transition.

FY05 Output 3 – Increase the number of new spectrum users.

FY05 Output 4 – Advance U.S. positions on spectrum through the International Telecommunications Union and the other forums.

FY05 Output 5 – Promote the use of unlicensed spectrum for new technologies.

FY05 Output 6 – Encourage the deployment of new spectrum efficient technologies, including spread spectrum systems, ultra-wideband systems, and cognitive radio.

FY05 Output 7 – Defend and enforce regulations, investigate complaints, and litigate cases affecting communications systems and infrastructure.

FY05 Output 8 – Maintain a dialogue with officials at the state, local, and global levels as well as with research communities and industry groups on new spectrum policies and technologies.

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MEDIA

Strategic Goal:

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

The FCC develops and modifies media regulations and policies to address a changing marketplace. It is a challenging task, due to:

- Changing ownership patterns;
- Legal challenges to FCC rules and policies;
- Converging markets and industries; and
- Increasingly rapid changes in technologies employed by service providers.

These factors, consistent with statutory directives, have led the FCC to place a high priority on reformulating the factual and analytical foundation of media ownership regulations and competition policies. The FCC will continue to examine whether current media regulations are achieving statutory policy objectives and will determine how changes in regulations may affect competition, diversity, and localism.

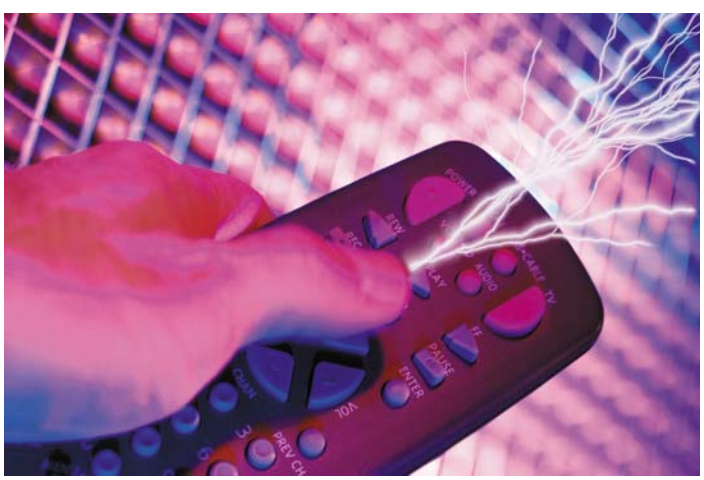
Facilitating the full transition to digital broadcast television is critical to ensuring the public has access to efficient, competitive media services. To facilitate this transition, the FCC will encourage the timely development and deployment of digital services.

Performance Goals

– Develop a sound analytic foundation for media ownership rules

– Facilitate the transition to digital television and radio

– Clarify and ensure compliance with general media obligations



Outcome Indicators

– Significant progress in the transition to digital television and radio

– Increasing investment by consumers in digital equipment

– Increasing deployment by industry in digital programming, equipment, and infrastructure

HIGHLIGHTS

- Digital Audio Broadcasting – Issued the digital audio broadcasting (DAB) Further Notice of Proposed Rulemaking and Notice of Inquiry seeking comment on issues left pending in the October 2002 Initial DAB Report and Order. The Commission plans to issue a Second Report and Order in 2005.
- DTV Periodic Review – The Second Periodic Review of the Commission's Rules and Policies Affecting the Conversion to Digital Television facilitated the continued progress in the transition from analog to digital television. It establishes the timing and procedures for the channel election process; set deadlines for stations to replicate and maximize service areas; eliminated the simulcasting requirement; required broadcasters to include Program and System Information Protocol (PSIP) information with their digital broadcast signals; permitted limited use of distributed transmission technology; and clarified interference protection parameters of broadcast stations operating and/or authorized to operate on channels 51-69.
  - Undertook several projects involving a review of DTV technical rules with the goal of furthering the completion of the transition. First, in the Notice of Inquiry on Interference Performance Specifications for Radio Receivers, the Commission included an issue on the development of voluntary standards DTV receiver performance. In response to this initiative, the Advanced Television Systems Committee, the DTV technical standards organization, has now developed draft standards for DTV performance that are being balloted by its members. Commission staff has continued to participate in this process, hoping that these voluntary DTV receiver performance standards could promote the transition by improving the quality of service received by viewers.
  - Updated applicable computer programs to facilitate the DTV transition, and provided guidelines on implementation and use of the Longley-Rice methodology for evaluating TV coverage and interference.
  - Established rules for the digital conversion of low power TV (LPTV) and TV translator stations (rural translator). These stations are a valuable part of the Nation's television system, delivering free over-the-air TV service to millions of viewers in rural and discrete urban communities.
- DTV Outreach – Developed a Consumer Fact Sheet, "Digital Television," to help explain digital television, the switch to DTV, and what DTV will mean to consumers. The Commission also commenced initial work on a comprehensive DTV consumer outreach campaign that explored a variety of outreach mechanisms: outreach messages that resonate with consumers; potential outreach partners (including the Consumer Electronics Association, National Association of Broadcasters, retail organizations and others); and developing draft print outreach materials. Finally, the agency has participated in a variety of meetings and consultations with foreign regulators concerning the transition to digital video and audio services. Additionally, the agency developed a new website, www.dtv.gov, as well as a Consumer Fact Sheet.
- Plug and Play – Adopted cable system transmission standards and support requirements, manufacturer labeling and consumer disclosure requirements, and copy protection encoding rules to promote digital "plug and play" cable compatibility. Certain of these rules are the subject of petitions for reconsideration, and the encoding rules are the subject of an appeal before the U.S. Court of Appeals for the District of Columbia Circuit, which has held the case in abeyance pending the Commission's action on the petitions for reconsideration. The Commission also

requested further comment regarding pre-sale consumer disclosures, image constraint (i.e., down-resolution) of non-broadcast programming, and processes for approving new digital output and content protection technologies.

- Broadcast Flag – Adopted a redistribution control content protection system for digital broadcast television content that requires television reception equipment to respond and give effect to a marker, also known as the "broadcast flag," embedded in digital broadcasts. In addition, the Commission approved 13 output protection technologies and recording methods which would be used by manufacturers to implement this system in time to meet manufacturer production cycles.

- Media Enforcement – Continued to meet statutory and internal deadlines, with regard to its enforcement responsibilities for broadcast, satellite, and cable operating matters. Of particular note, the Commission initiated more than $3 million in indecency enforcement actions, including a $1.75 million consent decree with Clear Channel Communications, Inc., pursuant to which the company committed to implement a Compliance Plan aimed at preventing future indecency violations. The Commission also took numerous actions in support of the Commission's localism initiative. For instance, the Commission took action that resulted in approximately $300,000 in forfeiture orders or settlements for violations of the main studio rule (for which they maintain public files containing information about their station's operation to help local listeners and viewers determine whether stations are complying with FCC requirements), public file rule, and other non-technical rules. Also of note in FY 2004, nearly 2,000 political complaints and inquiries were resolved within three months of receipt; nearly 3,000 broadcast and 1,200 cable Equal Opportunity Program Reports were reviewed for compliance within nine months of receipt; and over 7,000 Children's Television Reports were reviewed within three months of filing.
- DBS – Approved applications to increase the availability of Direct Broadcast Service systems. Among actions taken were the following:
  - Rainbow DBS Special Temporary Authority (STA) – October 2003
  - DBS Auction Order – January 2004
  - WSNET/Pegasus Order – March 2004
  - DirecTV 7S – launch authority April 2004
  - DBS Auction – July 2004
  - Various requests for modifications of current DBS licenses

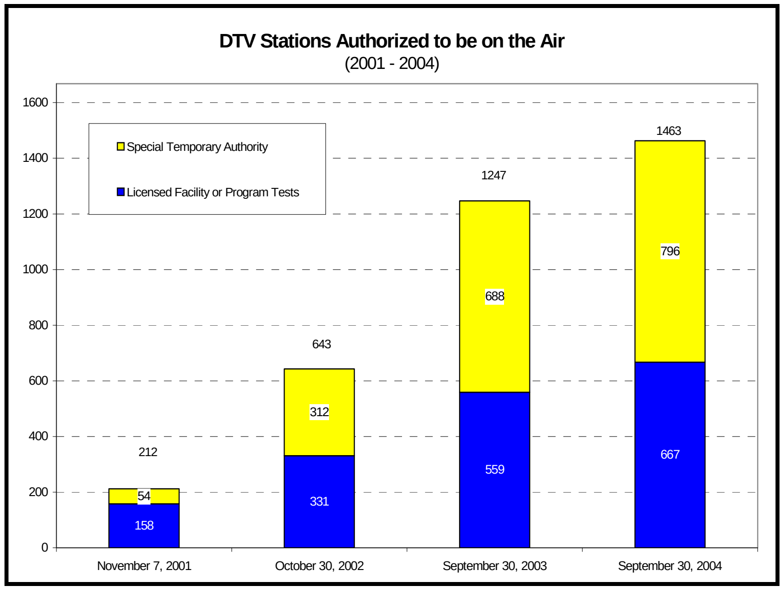
- International Agreements – Implemented existing memoranda of understanding (MOUs) with Canada and Mexico to ensure that broadcasters can maximize facilities along the border; participated in negotiations with Mexico and Canada to create comprehensive broadcast agreements that include allocation of DTV channels near the borders; and addressed interference to U.S. AM radio stations caused by Mexican stations operating in violation of U.S.-Mexican agreements.

- Public Notices – Issued two Public Notices reminding broadcast, cable and satellite operators of 1) new closed captioning benchmarks effective January 1, 2004 for English and Spanish language captioning, and 2) requirements to ensure that emergency information is presented in a manner accessible to persons who are deaf, hard of hearing, blind or visually impaired. The FCC also attended and presented at two large forums concerning closed captioning/access to emergency information issues. The Virginia Association of the Deaf sponsored one event, and the Northern Virginia Captioning Coalition sponsored the other event.

PERFORMANCE MEASURE RESULTS

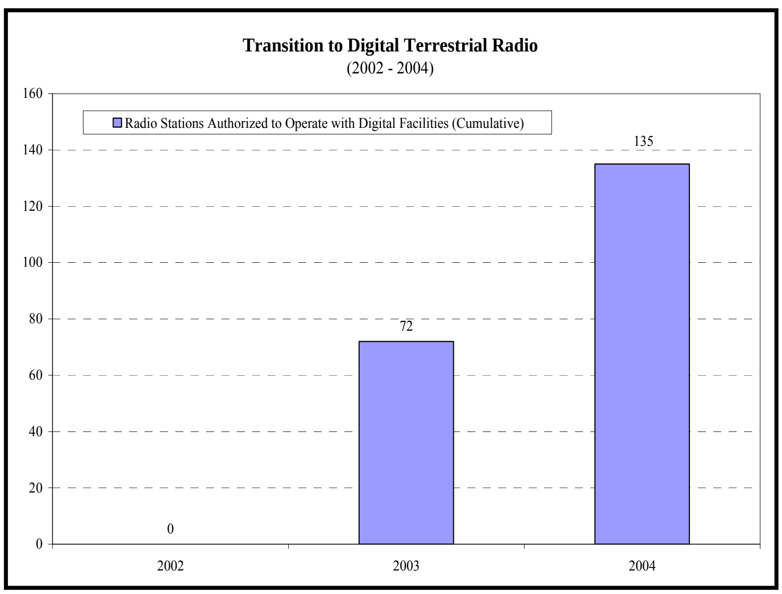
Significant progress in the transition to digital television and radio. (Outcome 1)

At the end of FY 2004, a total of 1,463 of 1,698 stations (86%) were authorized to be on the air. Of these, 667 are licensed digital facilities and facilities with program test authority (those pending grant of a license) for digital television (DTV) stations and 796 are facilities in operation pursuant to Special Temporary Authority. A greater number of television stations broadcasting digitally increased consumer demand for improved television service and for new DTV technology and competition.



Source: Media Bureau Consolidated Database Systems (CDBS).

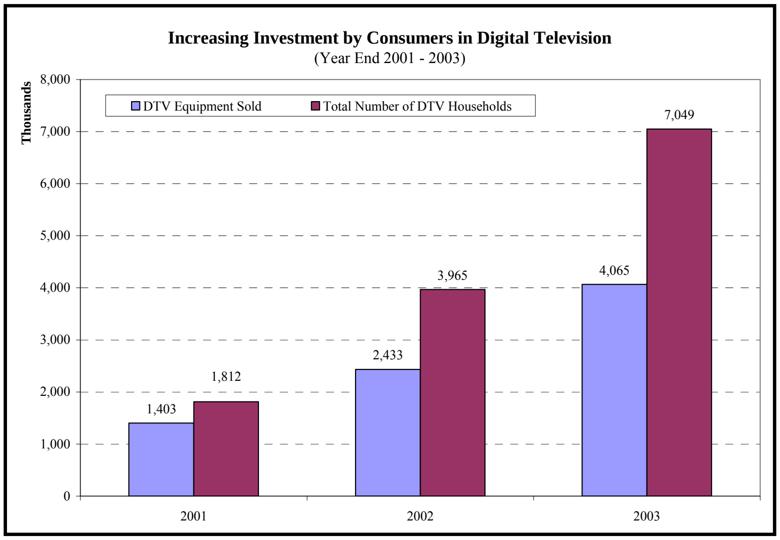
Implementation of AM and FM in-band, on-channel (IBOC) hybrid digital radio continued a slow but steady growth during FY 2004 rising to 135 stations operating with digital radio authorizations as of September 30, 2004. While the overall number of stations transmitting digital signals remains small in relation to the total number of eligible stations (135 of 13,499 stations), this is not unexpected in light of the fact that IBOC operation is still in the "interim" phase, since final rules have not yet been adopted for IBOC service, and IBOC receivers are just beginning to enter the consumer marketplace. On April 20, 2004, the Commission adopted a Further Notice of Proposed Rulemaking and Notice of Inquiry in MB Docket No. 99-325, a significant step toward the adoption of IBOC rules. Currently, comments are being reviewed on this item and a Second Report and Order is expected in FY 2005.



Source: Media Bureau Consolidated Database System (CDBS).

Increasing investment by consumers in digital equipment. (Outcome 2)

As identified in the chart, performance data on DTV equipment sold and the number of DTV households shows increased investment by consumers. As indicated by the lower bar of the chart for each year, the amount of DTV equipment, which is the number of new DTV sets sold to consumers each year, has increased from 1,403,000 DTV sets sold in 2001 to 2,433,000 DTV sets in 2002 to 4,065,000 DTV sets in 2003. The upper bar shows the total number of homes with DTV sets. DTV households also continue to grow, going from 1,812,000 in 2001 to 3,965,000 in 2002 to 7,049,000 DTV households in 2003.

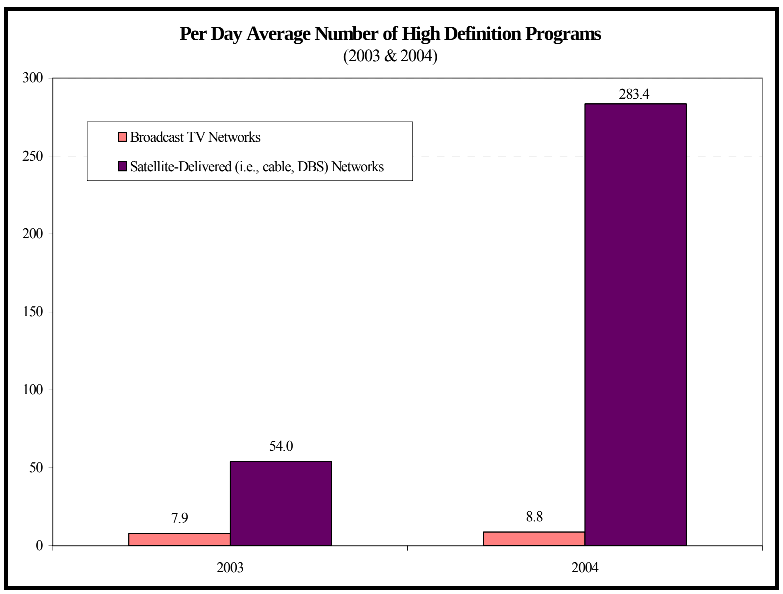


Source: Year-end statistics, Kagan World Media analysis of CEA data.

Increasing deployment by industry in digital programming, equipment, and infrastructure. (Outcome 3)

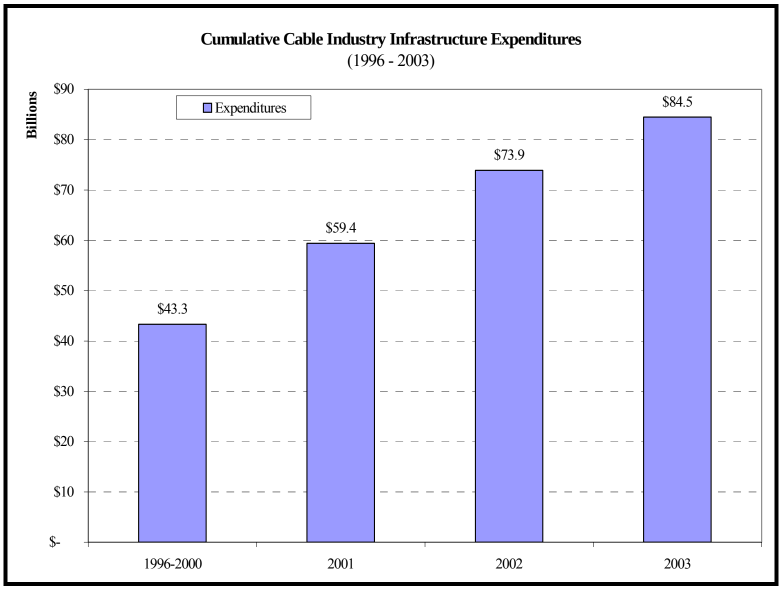
These two charts provide performance data on the deployment of digital programming, equipment and infrastructure by industry.

The chart on the right indicates that, in 2004, the broadcast networks carried an average of 8.8 programs in high definition (HD) format each day; satellite-delivered networks (also known as cable networks) distributed an average of 283.4 HD programs per day in 2004.



Source: 2003 data are based on a 15-day sample from June 2003 and includes data from only 5 broadcast and 5 satellite-delivered networks. Kagan Digital TV Newsletter, June 20, 2003, p.2.
Data for 2004 are based on a 14-day sample from September 2004 and includes data from 7 broadcast and 38 satellite-delivered networks. Decisionmark Corp. Digital TV Transition Progress Report prepared for the FCC, September 20, 2004. Although the Decisionmark data is a more complete representation of available HD programming, 2003 data are not available for this expanded universe.

The chart on the right shows the cable industry's investment in upgraded infrastructure for digital and other advanced services. From 1996 through 2000, the cable industry spent $43.3 billion. Cumulative expenditures through 2001, 2002 and 2003 were $59.4 billion, $73.9 billion, and $84.5 billion, respectively.



Source: National Cable & Telecommunications Association Cable Developments 2004.

OTHER ACCOMPLISHMENTS

Promoting competition, diversity and localism in the media marketplace

During the past year, the Commission has taken a number of actions to accomplish our goals of diversity, competition, and localism. In conjunction with the Commission's Localism Task Force, the Media Bureau has helped organize and has participated in four field hearings on broadcast localism: Charlotte, North Carolina, on October 22, 2003; San Antonio, Texas, on January 28, 2004; Rapid City, South Dakota, on May 26, 2004; and Monterey, California, on July 21, 2004. The Commission released a Notice of Inquiry, In the Matter of Broadcast Localism, on July 1, 2004.

To further competition, diversity and localism goals, the Media Bureau has been working on petitions for reconsideration and the court remand of the 2002 Biennial Media Ownership Report and Order. On February 19, 2004, the Media Bureau issued a Public Notice seeking additional comment on the UHF discount in light of recent legislation affecting the national TV ownership cap. In addition, the Commission has released a Notice of Proposed Rulemaking, In the Matter of Rules and Policies Concerning Attribution of Joint Sales Agreements (JSAs) in Local Television Markets, to consider attribution of TV JSAs.

With respect to the diversity goal, the FCC has released a Public Notice seeking comment on ways to further Section 257 of the Telecommunications Act's mandate to identify and eliminate market entry barriers for small telecommunications businesses. Additionally, on June 4, 2004, the Commission released a Third Report and Order and Fourth Notice of Proposed Rulemaking, In the Matter of Review of the Commission's Broadcast and Cable Equal Employment Opportunity Rules and Policies. On May 28, 2004, the FCC announced that it had begun mailing EEO audit letters to randomly selected broadcast stations and multichannel video program distributors. Each calendar year, approximately 5% of all licensees and MVPDs will be selected for audit.

Furthermore, the Advisory Committee on Diversity for Communications in the Digital Age met three times during this fiscal year. The Committee provides guidance to the Commission on policies and practices that could increase the diversity of ownership and create opportunities for minorities and women to advance to managerial positions in the communications sector as well as in other related sectors of the economy. The Committee also develops best practices within the communications sector for promoting diversity.

With respect to the competition goal, on June 17, 2004, the Commission released the Notice of Inquiry for the annual competition report, In the Matter of Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming. Further, with respect to localism and diversity, on February 19, 2004, the FCC sent a Report to Congress on the results of the Low Power FM (LPFM) Interference Testing Program, in accordance with Section 632 of the DC Appropriations Act, which recommended the elimination of third-adjacent channel minimum distance separation requirements for LPFM stations.

PERFORMANCE RESULTS AT-A-GLANCE

MEDIA
FCC 2004 Performance Measure Scorecard

Output Activities	Met Goal	Did Not Meet Goal	Data Not Available
1. Resolve challenges to revised rules issued in Third Biennial Review of Broadcast Ownership Rules and issue NPRM for Fourth Biennial Review of broadcast ownership rules to assure that the rules reflect the current media marketplace.		X	
2. Adopt and enforce regulations to advance the digital transition and implement public education efforts, e.g., DTV Must-Carry, DTV Periodic Review, DTV LPTV and TV Translators, Plug-and-Play, Broadcast Flag, Digital Audio Systems and Service Rules, and Disability Accessibility.	X		
3. Initiate any further actions to gather information and data from consumers, industry, civic organizations, and others to assess broadcasters' service to local communities.	X		
4. Resolve and enforce broadcast, cable and satellite operating matters in a timely way (e.g., children's television, public files, leased access, main studio, EEO, political programming, closed captioning, analog must carry, and other non-technical rules).	X		
5. Conduct staff review of DTV technical rules to identify any changes needed to facilitate the completion of the DTV transition mandated by statute.	X		
6. Foster the digital television transition by negotiating cross-border agreements with Canada and Mexico.	X		

Performance Measure Not Met

Due to the parties' appeal of the Commission's Broadcast Ownership rules to the United States Court of Appeals for the Third Circuit, and the extended time awaiting the court's decision, the Commission did not act on the pending petitions for reconsideration in FY 2004. The court's decision was not issued until June 24, 2004, and the Commission filed a Petition for Rehearing in August. Therefore, the challenges to revised rules will be resolved in the next phase of this proceeding. Due to statutory changes that revised the requirement to review the media ownership rules from every two to four years, a Notice of Proposed Rulemaking for the Fourth Biennial Review of broadcast ownership rules was not completed in 2004. The next such review is scheduled for 2006.

FUTURE PERFORMANCE MEASURES

FY 2005 - 2006 Outcome Indicators:

- » Increasing investment in and deployment of digital programming, equipment, and infrastructure by both industry and consumers
- » Promoting competition, diversity, and localism in the media marketplace

FY05 Output 1 – Continue monitoring and defense of, and if necessary, revision to Media Ownership Rules that reflect the current media marketplace.

FY05 Output 2 – Adopt, defend, and enforce regulations and review technical rules to advance the digital transition; implement public education efforts to promote this transition.

FY05 Output 3 – Resolve and enforce broadcast, cable, and satellite operating matters in a timely way.

FY05 Output 4 – Initiate any further actions to gather information and data from consumers, industry, civic organizations, and others to assess broadcasters' service to local communities.

FY05 Output 5 – Protect both America's children and freedom-of-speech through firm and fair action on indecency.

FY05 Output 6 – Maintain a dialogue with policy makers around the globe as well as with research communities and industry groups on competition and new technologies in the media marketplace.

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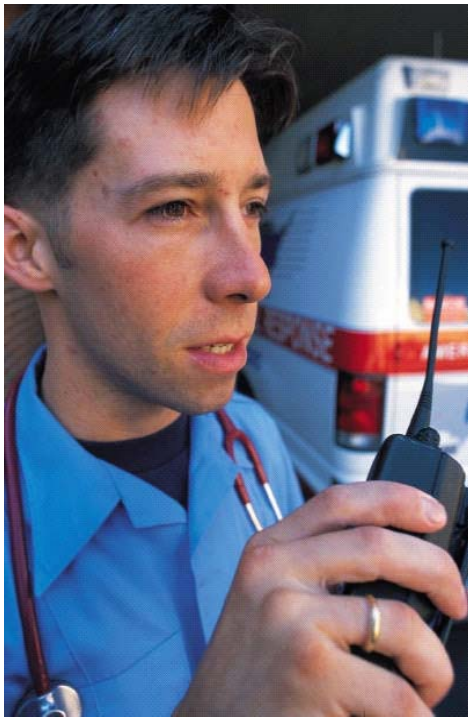
HOMELAND SECURITY

Strategic Goal:

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

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

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



- Develop policies that promote access to effective communications services by public safety, public health, and other emergency and defense personnel in emergency situations;
- Evaluate and strengthen measures for protecting the Nation's communications infrastructure; and
- Facilitate rapid restoration of the U.S. communications infrastructure and facilities after disruption by a threat or attack.

Performance Goal

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

Outcome Indicators

– Increasing deployment of E-911

– Increasing Telecommunications Service Priority (TSP) participation

– Increasing amount and effective use of spectrum available for public safety communications

HIGHLIGHTS

Developing policies that promote access to effective communications services by public safety, public health, and other emergency and defense personnel in emergency situations:

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

- 5.9 GHz Band Intelligent Transportation Systems Proceeding – Adopted licensing and service rules for dedicated short-range communications in the Intelligent Transportation Systems (ITS) Radio Service. ITS services will provide benefits to public safety entities such as the ability to monitor traffic from a control point and route first responders along the path of least resistance. They will also provide benefits to travelers, such as intersection collision avoidance and work zone warnings.

- 800 MHz Public Safety Communications Proceeding – Adopted a plan to resolve the ongoing problem of interference to public safety systems operating in the 800 MHz band. This plan, once implemented, will help ensure interference-free operations for policemen, firemen, and other public safety personnel.

- 4.9 GHz Interoperability Proceeding – Issued approximately 170 licenses to state and local agencies to operate in the 4.9 GHz band. This band was transferred from the Federal Government to non-government use in 1999. On April 23, 2003 the Commission adopted service and licensing rules for the band to accommodate a wide variety of broadband wireless applications in support of public safety, including, for example, wireless local area networks for incident scene management, dispatch operations, and vehicular operations.

- Rural Health Care Support Proceeding – Adopted rules that strengthen telemedicine and telehealth networks across the Nation and thereby enable health care providers to diagnose, treat, and contain possible outbreaks of disease more rapidly. These capabilities are particularly critical in light of potential threats of biological or chemical attacks.

- Maritime Radio Services Proceeding – Updated and streamlined Part 80 of the rules, particularly with respect to distress communications, and sought comment on additional rule changes to enhance maritime safety.

- Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities Proceeding – Addressed cost recovery and other matters related to the provision of TRS pursuant to Title IV of the Americans with Disabilities Act of 1990.

- CALEA Proceeding – Proposed rules and issued a declaratory ruling regarding implementation of the Communications Assistance for Law Enforcement Act, particularly as it applies to broadband access and services, with the goal of ensuring that law enforcement has all of the resources that CALEA authorizes to combat crime and support homeland security.

- EAS Proceeding and EAS Enforcement – Opened a proceeding concerning how the Emergency Alert System (EAS) can be improved or supplemented to better meet the Nation's needs to alert citizens in times of crisis. Throughout FY 2004, the Commission strictly enforced EAS equipment and testing requirements, taking or proposing approximately 70 enforcement actions for EAS violations.

- E911 Coordination Initiatives II and III – Brought together E911 stakeholders to share experiences and devise strategies for expediting E911 deployment and addressing ongoing implementation issues. These partnership initiatives addressed key E911 concerns such as PSAP funding, wireless carrier implementation and prioritization, and challenges faced by rural carriers.

- E911 Solutions Summit – Brought together stakeholders to gather information concerning the ability of IP-enabled voice services, such as VoIP, to deliver callback number and location information. As more Americans subscribe to these services as an alternative to traditional circuit-switched voice services, this issue will take on additional importance.

- Disabilities Summit – Convened a day-long summit, bringing together disability organizations, service providers, Government agencies and other stakeholders to identify barriers faced by people with disabilities during national emergencies and to develop strategies for resolving them. The FCC also partnered with its international counterparts to address access to networks for persons with disabilities and standards that equipment manufacturers and network designers can use in developing equipment that allows all individuals to have access to communications networks.

- Media Forum – Co-sponsored a forum with the Department of Homeland Security to examine how the relationship between local media and Government can be strengthened to support operational readiness to cope with terrorist attacks and natural disasters.

- 800 MHz Cross-Border Coordination – Subsequent to adoption of the 800 MHz rules, and in consultation with the Department of State, initiated coordination with Mexico and Canada concerning necessary modification of cross-border agreements.

- Support for Large Scale Government and Political Events – Partnered with Federal, state and local officials at the FY 2004 political conventions, the G8 Summit and other important large-scale Government events to help ensure interference-free communications for law enforcement and public safety.

Evaluating and strengthening measures for protecting the communications infrastructure and ensuring rapid restoration in the event of disruption:

- Pipeline Safety Improvement Act Proceeding – Launched a rulemaking to simplify the Nation's One Call notification system. Proposals under consideration would permit easier notification to underground operators of excavation activities. Damage from excavation activities can cause outages that disrupt our Nation's energy supply, air traffic control operations, emergency response providers, law enforcement agencies, and military bases.

- Orbital Debris Proceeding – Adopted a comprehensive plan to mitigate the risks posed by orbital debris on satellite systems. Such debris could jeopardize the reliable use of orbital regimes for space-based services, including those that support homeland security.

- Outage Reporting Proceeding – Adopted rules extending mandatory outage reporting requirements to include not only wireline providers but also wireless and satellite providers. This requirement will ensure rapid, complete and accurate information on service disruptions that could impact homeland security, pubic health or safety, and our country's economic well-being.

- COSPAS-SARSAT International Satellite Location and Rescue System – Partnered with the National Oceanic and Atmospheric Administration at the site of the COSPAS-SARSAT system to address interagency cooperation aimed at eliminating harmful interference to the satellite constellation, which has become an integral part of homeland security.

- Executive Branch Consultation on Section 214 market access and Section 310 foreign ownership reviews – Coordinated 95 section 214 applications, Section 310 foreign ownership reviews, and submarine cable landing license applications with the Executive Branch to ensure consideration of national security, law enforcement, foreign policy and trade issues.

- Priority Services Project – Led an interagency working group to evaluate the following Federal priority service programs to determine ways to improve operations, changes that may be necessary as IP-based services become more prevalent, and methodologies for increasing participation by essential Federal, state and local emergency organizations: telecommunications service priority (TSP); Government emergency telephone services (GETs); wireless priority devices.

- Rural Satellite Forum – Held a one-day forum to highlight satellite-based communications systems and their various applications, including public safety, homeland security, and telemedicine.

- Tribal Communications Security Plan – Began the consultation process on a draft Tribal Communications Security Plan at the National Conference of American Indians. The Plan is designed to assist Tribal Governments in planning for the physical protection of critical communications infrastructure in their communities.

- Interdependencies Workshop – Together with the Department of Homeland Security, the Federal Energy Regulatory Commission, and the National Association of Regulatory Utility Commissioners, hosted a two-day "Interdependencies Workshop." The workshop identified interdependencies among water, energy, and telecom and identified going-forward steps to increase coordination and preparedness.

Promoting new technologies that support homeland security:

- Aviation Radio Services Proceeding – Updated and streamlined Part 87 of the rules to accommodate technological advances and new safety-related services. The proceeding also sought comment on additional rule changes to enhance aviation safety.

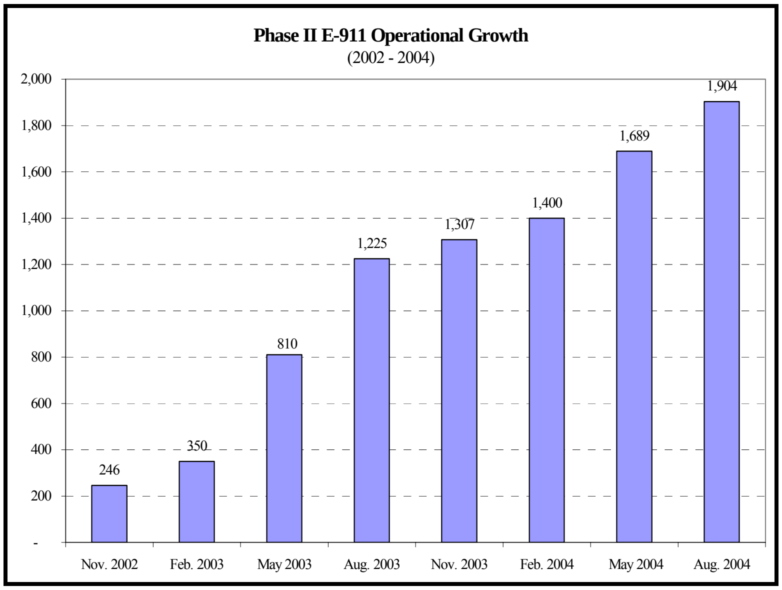
- Cognitive Radio Proceeding – Proposed rules concerning uses of cognitive radio technology to improve spectrum use. Cognitive radio technology promises particular benefits for public safety entities because it will permit much more flexible, efficient use of spectrum and promote interoperability.

- Radio Frequency Identification (RFID) Systems Workshop – Held a one-day workshop to allow industry and RFID service providers to discuss with FCC officials the current state of the industry, and whether the current FCC rules allowed for the growth and development of this service. The RFID systems will have significant homeland security benefits, such as permitting the immediate identification of the entire contents of shipping containers and permitting a determination of whether tampering with contents has occurred.

PERFORMANCE MEASURE RESULTS

Increasing deployment of E-911. (Outcome 1)

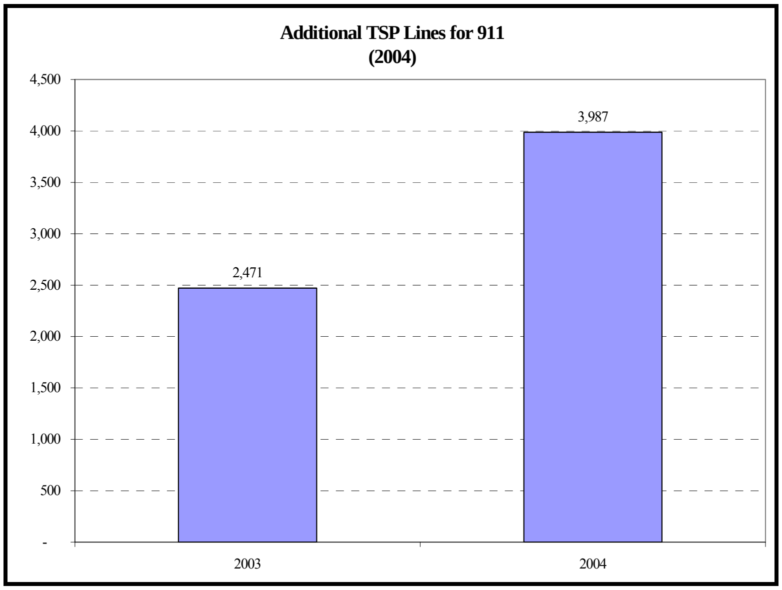
From February 2003 to August 2004, Phase II of E-911 Operational Growth increased by 444% (from 350 to 1,904). This chart reflects the number of Public Safety Answering Points (PSAPs) receiving Phase II location information from at least one mobile service licensee. Phase II rules require licensees to transmit 911 caller location information to PSAPs with greater accuracy than Phase I deployment. In order to monitor E-911 progress closely, each carrier is required to file quarterly reports with the FCC on February 1, May 1, August 1, and November 1 of each year.



Source: E-911 Quarterly Reports filed by Carriers.

Increasing telecommunications service priority participation. (Outcome 2)

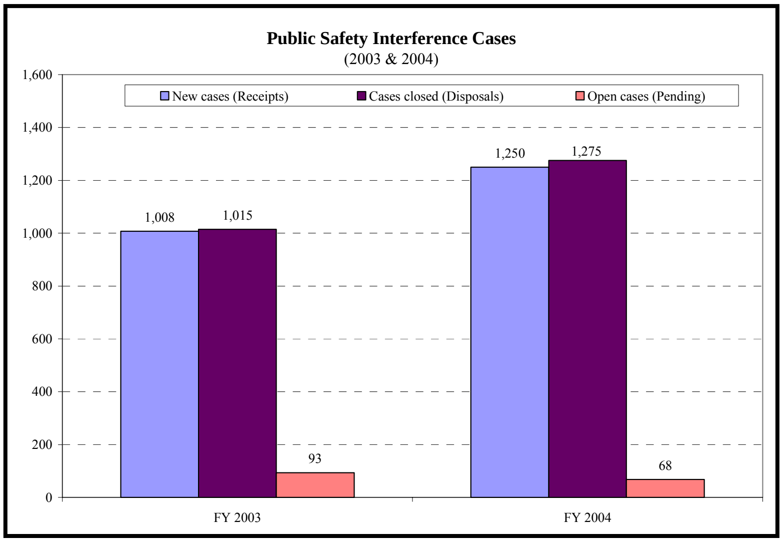
The FCC established the Telecommunications Service Priority (TSP) program to support priority restoration of communications services that support national security and emergency preparedness (NS/EP) missions during disasters, including terrorist attacks. The National Communications System (NCS) oversees day-to-day operation of the TSP program. Any Federal, state, or local government entity that relies on telecommunications services to accomplish its NS/EP mission can qualify for TSP. There were a total of 55,000 911-center communications lines in FY 2004. Although all 911-centers would qualify for the TSP program, only a very small percentage of 911-centers participate. In FY 2004, the FCC began an outreach program to inform 911 administrators of the TSP program and expedite their enrollment. At the end of FY 2003, a total of 2,741 911-center communications lines were enrolled in the TSP program. By the end of FY 2004, a total of 3,987 911-center communications lines were covered by the TSP program. The TSP program increases the reliability of essential NS/EP communications services



Source: DHS-NCS Active TSP Participation Reports.

by minimizing out-of-service times. As a result, these centers' operations were made substantially more reliable.

Increasing amount and effective use of spectrum available for public safety communications. (Outcome 3)



Source: Enforcement Bureau Quarterly Workload Summary Report.

Effective public safety communications depends not just on the amount of spectrum available to public safety entities but also on interference-free operations. In an effort to help ensure that public safety communications are free of unlawful interference, the FCC's field offices have undertaken an outreach program to public safety entities to inform them of the FCC's ability to locate the sources of unlawful interference. The FCC strives to quickly resolve public safety entities' interference complaints. As a result of outreach, the number of interference complaints received from public safety entities increased by 24% (from 1,008 to 1,250) during FY 2004. By contrast, the number of pending cases at the end of FY 2004 decreased by 27 percent.

OTHER ACCOMPLISHMENTS

Enhancing telecommunications and media network reliability, including emergency preparedness.

The FCC worked with two of its Federal Advisory Committee Act (FACA) committees – the Network Reliability and Interoperability Council (NRIC) and the Media Security and Reliability Council (MSRC) – to enhance telecommunications and media network reliability. NRIC is comprised of Government representatives and members from the wireline and wireless industries, ISPs, and equipment suppliers. NRIC adopted or revised over 800 voluntary industry Best Practices focused on physical security, cybersecurity, business continuity, and public safety. Information on Best Practices was disseminated through numerous workshops, panels, and at the international level, through teleconferences. In addition, over 600 stakeholders received a DVD about NRIC Best Practices.

MSRC, comprised of Government representatives and members from the broadcast, cable, and satellite industries, developed over 100 voluntary industry Best Practices focused on public communications and safety, communications infrastructure security, access, and restoration. Information on these Best Practices was disseminated through panels, a joint workshop with the Department of Homeland Security, and the distribution of over 13,000 brochures at industry conventions and other events. In addition, the Florida Association of Broadcasters, in cooperation with MSRC's Public Communications and Safety Working Group, tested Best Practices and sought input from local emergency managers and officials at a one day workshop in Tampa, Florida.

PERFORMANCE RESULTS AT-A-GLANCE

HOMELAND SECURITY FCC 2004 Performance Measure Scorecard			
Output Activities	**Met Goal**	**Did Not Meet Goal**	**Data Not Available**
1. Identify and engage domestic and international counterparts on homeland security issues.	X		
2. Develop regulations to ensure the security and survivability of the satellite communications infrastructure, including treatment of orbital debris.	X		
3. Ensure public safety has adequate means of meeting communications needs through spectrum and technology.	X		
4. Increase the deployment of Telecommunications Service Priority participation.	X		
5. Enhance consumer awareness of communications security and reliability issues in emergency situations.	X		
6. Enforce technical regulations and investigate harmful interference complaints affecting public safety communications systems and infrastructure.	X		
7. Complete rulemakings/issue regulations that further the accessibility of the telecommunications network to people with disabilities (e.g., Telecom Relay Services including annual review of TRS issues, and Section 255 accessibility to equipment and services).	X		
8. Coordinate Section 214 market access and Section 310 foreign ownership reviews with the Executive Branch.	X		
9. Facilitate deployment of enhanced 911 services through new regulations, clarification of existing regulations, enforcement proceedings, and data tracking.	X		
10. Complete the deliverables required by the Network Reliability and Interoperability Council (NRIC) and Media Security and Reliability Council (MSRC) charters.	X		
11. Enhance the Emergency Alert System through consistent, strong enforcement of Emergency Alert System (EAS) equipment and testing requirements.	X		

Performance Measures Discontinued

As noted in Chapter 1 (see page 5), the following outcome indicator, previously measured in FY 2003, was eliminated at the end of FY 2003 in the FY 2003 Annual Program Performance Report (page 24, http://www.fcc.gov/Reports/ar2003.pdf):

- Increasing deployment of Wireless Priority Access Service (WPAS).

During FY 2003, we determined that since the deployment of WPAS (managed by the Department of Homeland Security, National Communications System) is voluntary it is not an appropriate measurement.

The following outcome indicator, previously measured in FY 2003, was temporarily suspended at the end of FY 2003 because data will not be available in FY 2004:

- Increasing reporting of service outages across multiple platforms.

In the past, only wireline and cable telephony communications providers were required to report service outages. In August 2004, the FCC adopted rules extending reporting requirements to wireless and satellite providers. These actions will facilitate more reliable telecommunications throughout the U.S. and promote homeland security. However, data will not be available until some point in FY 2005. This measure will be included in the FY 2005 PAR.

FUTURE PERFORMANCE MEASURES

FY 2005 - 2006 Outcome Indicators:

» Increasing deployment of E-911

» Increasing Telecommunications Service Priority participation for 911-centers, state and local emergency operations centers, and Federal departments and agencies

» Enhancing telecommunications and media network reliability, including emergency preparedness

» Increasing amount and effective use of spectrum available for public safety communications

» Increasing reporting of service outages across multiple platforms

» Improving the effectiveness of an Emergency Alert System (EAS) by expanding its reach to users of additional communications technologies and media

» Coordinating with other agencies regarding homeland security

FY05 Output 1 – Enhance the Emergency Alert System through consistent, strong enforcement of EAS equipment and testing requirements.

FY05 Output 2 – Enforce technical regulations and investigate harmful interference complaints affecting public safety communications systems and infrastructure.

FY05 Output 3 – Ensure public safety has adequate means of meeting communications needs through spectrum and technology.

FY05 Output 4 – Develop and enforce regulations to implement CALEA for broadband telecommunications carriers; measure compliance with CALEA requirements by providers with circuit-switched technology by tracking the decline in waiver and extension requests.

FY05 Output 5 – Maintain a dialogue with regulators at the state, local, tribal, and global levels as well as with industry groups on FCC-related homeland security policies and practices.

FY05 Output 6 – Increase the deployment of Telecommunications Service Priority services.

FY05 Output 7 – Enhance consumer awareness of communications security and reliability issues in emergency situations.

FY05 Output 8 – Facilitate deployment of enhanced 911 services through new regulations, clarification of existing regulations, enforcement proceedings, and data tracking.

FY05 Output 9 – Develop regulations to ensure the security and survivability of the satellite communications infrastructure, including treatment of orbital debris.

FY05 Output 10 – Coordinate Section 214 market access and Section 310 foreign ownership reviews with the Executive Branch.

FY05 Output 11 – Monitor and analyze service outage reports.

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MODERNIZE THE FCC

Strategic Goal:

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

The FCC is committed to becoming an ever more responsive, efficient, and effective agency. While these changes have begun, with an agency-wide reorganization and dedication of resources to recruiting, training, equipping, and deploying an expert workforce, much work remains as the agency capitalizes on its competencies in:

- Promoting competition, innovation, and investment in broadband services and facilities;
- Supporting the Nation's economy by ensuring a competitive framework for the communications revolution;
- Encouraging the highest and best use of spectrum domestically and internationally;
- Revising media regulations so new technologies flourish alongside diversity and localism; and
- Strengthening the defense of the Nation's communications infrastructure.

The FCC's objectives are to:

- Structure the FCC so that it can flexibly respond to Congress, consumers, and the communications industries in a timely manner;
- Provide and sustain mission-critical training and development in order to ensure excellence among a diverse and expert staff; and
- Offer employees educational and advancement opportunities.

Performance Goal

- Become a more responsive, efficient, and effective agency

Outcome Indicators

- Reducing the average time required to complete rulemakings (improve workflow, document and knowledge management)

- Increasing efficiency in the processing of workload (measured by and reported in the Quarterly Performance and Results Review (QPRR))
- Employing of appropriate number of attorneys, engineers and economists
- All FCC employees participating in appropriate career development activities
- Increasing rate of agency achievements of strategic objectives

HIGHLIGHTS

Electronic Initiatives

- Project IMPACT – Initiated a pilot project, Project IMPACT (Improving Management of Policy Activities through Collaborative Technologies) to improve the effectiveness of the policy and rulemaking process through the use of document and knowledge management software. In FY 2004, 200 pilot participants were trained in the IMPACT suite of software tools, and organizations began using these tools in the rulemaking process. The pilot has been extended into FY 2005 to provide a better assessment of the technology.
- IT Steering Committee (ITSC) – Chartered the ITSC comprised of senior IT managers from all Bureaus and Offices. The ITSC developed recommendations for spending priorities based on agency-wide information technology requirements. It also established a licensing subgroup to develop a strategy for refreshing and evolving our licensing systems.
- Improved Customer Service –
    - Replaced several aging components of our Internet infrastructure that improved system performance, security and capacity. We are now able to process a much higher volume of incoming email, and public access to FCC systems is more efficient and responsive.
    - As part of the CIMS development effort, consumer inquiries are now automatically pre-sorted by key words or hot topics. This allows the staff to quickly identify the subject of the inquiry and provide a faster response to the consumer.
    - The Equipment Authorization System now provides an on-line web-based form that accredited testing laboratories can use to certify radio frequency devices.
    - In accordance with the Bipartisan Campaign Reform Act of 2002, made available an on-line database that determines whether a communication sent via a broadcast, cable, and/or satellite system can reach 50,000 or more people in a particular Congressional District or State.
    - The Media Bureau’s licensing system, CDBS, can now process informal filings online (e.g., name/address changes, special temporary authority, etc.). In addition, the Media Bureau introduced electronic filing for Signal Leakage Performance Reports via the Cable Operations and Licensing System.
    - The Universal Licensing System now provides online capabilities for MDS and ITFS application/license data and spectrum leasing applications/notifications. In addition, the newly deployed ULS License Manager dramatically simplifies the submission of many types of filings such as renewals, cancellations, and administrative updates.
- BEAMS – Implemented BEAMS, a performance-based budgeting system that tracks time, resources, and expenditures by agency-wide output (performance) activities and strategic goals. This system integrates budget, performance goals, and resources.

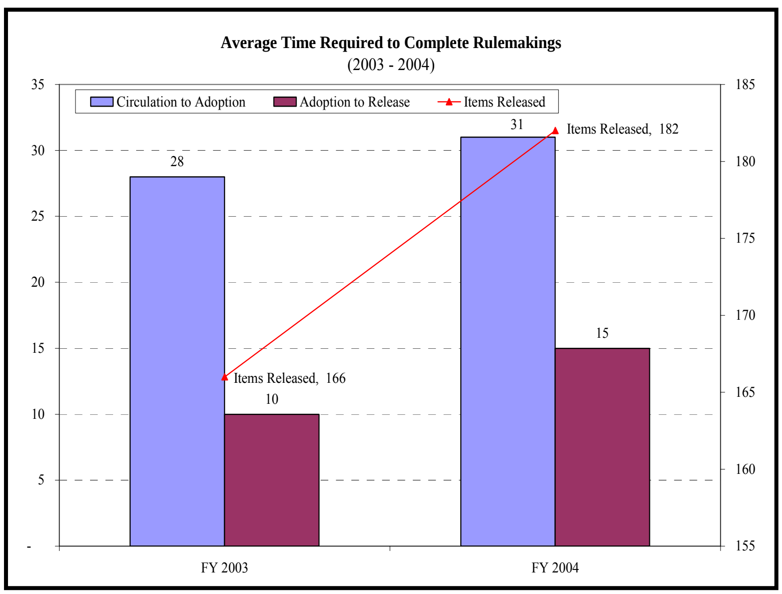
Work Life Programs

- Commuter Friendliness – The Greater Washington Region's Best Workplaces for Commuters[SM] Coalition included the FCC on its 2004 list of the Greater Washington Region's Best Workplaces for Commuters. Factors for award included: offering the maximum allowable transit subsidy; telecommuting by 32% of the FCC staff; giving carpools preferred parking; offering shuttles to Metro in the evening; and permitting flexible work schedules that allow employees to balance work and family demands.
- FCC Best! – Implemented "FCC Best!" to make the FCC an even better place to work. Our efforts can be classified into three broad categories:
  - Innovation and Efficiency. We develop ideas to improve the way the FCC works.
  - Community Service. We promote interaction between the FCC and the local community. Some of our activities include arranging for FCC employees to speak at schools and community centers, and organizing book drives for local schools.
  - Improving the Workplace/Having Fun. We find ways to make the work environment more enjoyable. We enjoyed a variety of activities, including an agency-wide picnic to celebrate the 70th anniversary of the Communications Act of 1934 and Take Your Child to Work Day.

PERFORMANCE MEASURE RESULTS

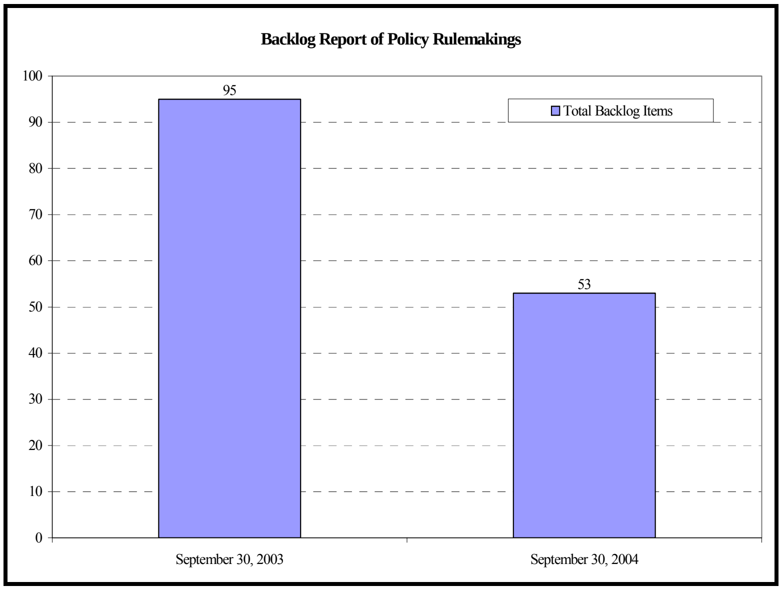
Reducing the average time required to complete rulemakings (improve workflow, document and knowledge management). (Outcome 1)

The FCC's processing time from "circulation to adoption" remained fairly constant at approximately one month to complete a rulemaking in FY 2004. In FY 2003, processing time from "circulation to adoption" was 28 days.



Source: Quarterly Performance and Results Review, FY 2004.

In FY 2004, the FCC backlog of policy rulemakings totaled 53 items. This represents a 44% decrease from the 95 policy rulemaking items backlogged in FY 2003.

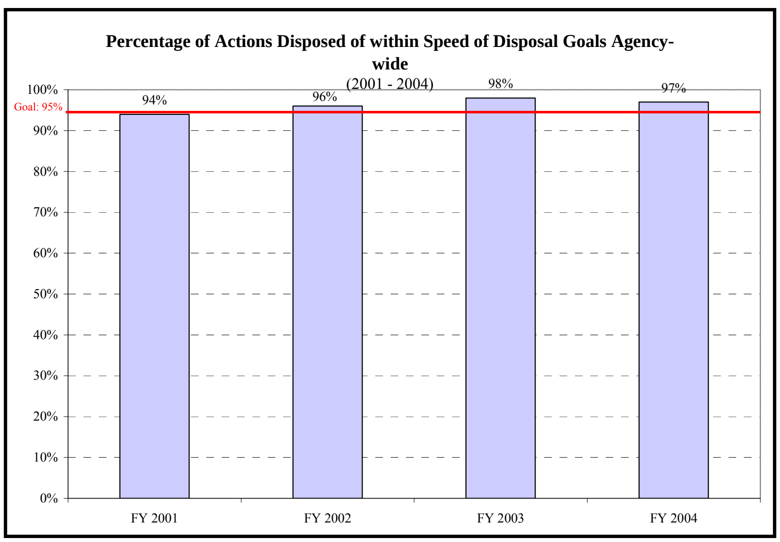


Source: Quarterly Performance and Results Review, FY 2004.

Increasing efficiency in the processing of workload (measured by and reported in the QPRR). (Outcome 2)

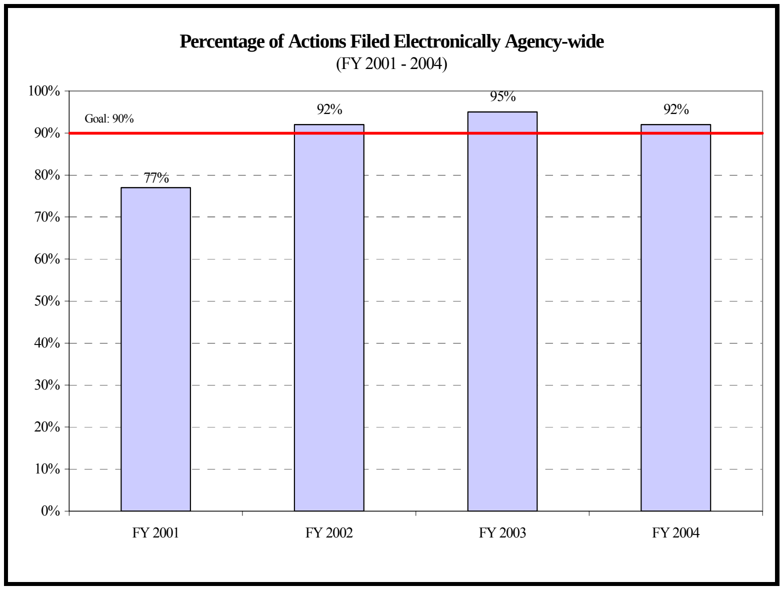
In FY 2004, the FCC identified 21 outcome indicators for tracking and monitoring in the QPRR categorized under the FCC's six strategic goals. As reflected in the charts below, the FCC exceeded its speed of disposal and electronic filing goals.

Speed of Disposal – At the end of FY 2004, 97% of the 1,705,973 actions were disposed within the processing goals. In FY 2003, 98% of 576,860 actions were disposed within the processing goals. For the third year in a row, the agency exceeded the 95% goal. The primary reason the total number of actions more than doubled is a result of the inclusion of actions taken by the Consumer and Governmental Affairs Bureau for the first time in FY 2004.



Source: Quarterly Performance and Results Review, FY 2004.

Actions Filed Electronically – At the end of FY 2004, 92% of 566,975 applications were filed with electronic filing capability or online. In FY 2003, 95% of 575,838 applications were filed with electronic filing capability or online. For the fourth year in a row, the FCC exceeded the 90% goal.



Source: Quarterly Performance and Results Review, FY 2004.

Employing of appropriate number of attorneys, engineers and economists. (Outcome 3)

A workforce planning report was completed and approved by the Chairman. The report includes an assessment of the challenges confronting the agency and the extent to which the agency has the appropriate mix of skills and staff to meet those challenges. The report pinpointed a need for additional attorneys, engineers and economists. The FCC obtained Voluntary Early Retirement Authority from the Office of Personnel Management in July 2004 as a way to help reshape the agency's workforce. In FY 2004, the FCC hired seven attorneys, four engineers, and one economist.

All FCC employees participating in appropriate career development activities. (Outcome 4)

To become a more efficient and effective agency, the FCC used the workforce analysis data to develop new training programs and enhance existing training programs to provide career development assistance to all employees. At the end of FY 2004, nearly all employees had prepared Personal Development Plans, and a follow-up is scheduled in November 2004 (the first anniversary) to determine completion.

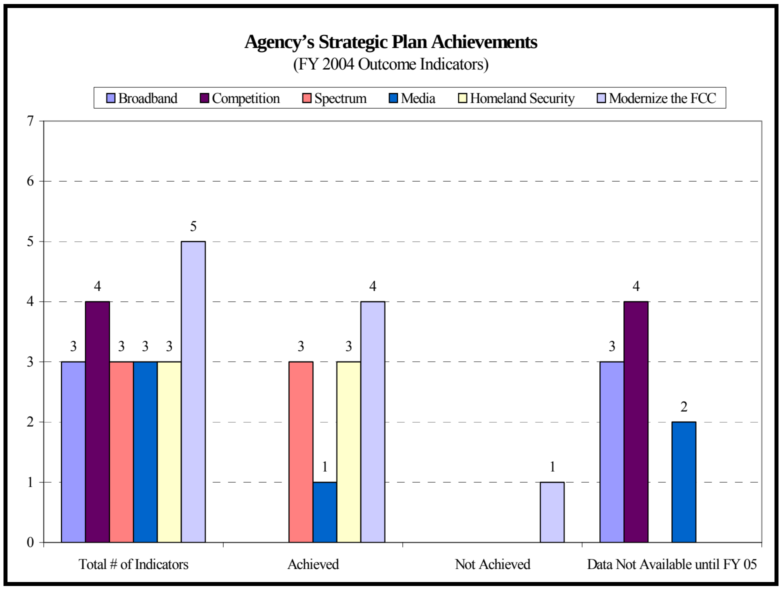
- Included three new occupational groups in the FCCU catalog: Clerical and Administrative, Consumer Affairs and Outreach, and Program and Management Analysts.
- Expanded the in-house training program by offering 319 sessions,[16] providing training for FCC employees in professional, technical, general, and leadership competencies in 6,194 instances.[17] Additionally, FCC employees completed 287 online training courses.
- Increased the number of external courses completed to 749, representing an investment of almost $500,000.

[16] A training "session" is a subset of a training class or program. Classes may have more than one session (e.g., a five-day training class or program has five sessions).
[17] A training "instance" occurs when a person attends a training session. Instances provide a relative gauge of training frequency for individuals, and training activity and effort by the training administrative staff.

- Obtained the first Continuing Legal Education (CLE) credits for FCC in-house training courses to help attorneys meet applicable professional requirements.
- Piloted a new web-based training package offering technical and crosscutting skills courses to the Enforcement Bureau's field offices.
- Linked supervisors, managers, and employees performance appraisals to the strategic plan.
- Piloted 360-degree assessments for managers by supervisor, peers, and subordinates. Expanding the availability of this tool to everyone in FY 2005.

Increasing rate of agency achievement of strategic objectives. (Outcome 5)

The FCC met 11 of its outcome indicators, and did not meet one of its indicators in FY 2004. Fiscal year data were not available for the nine additional indicators and were not included in our calculations.



PERFORMANCE RESULTS AT-A-GLANCE

MODERNIZE THE FCC FCC 2004 Performance Measure Scorecard			
Output Activities	**Met Goal**	**Did Not Meet Goal**	**Data Not Available**
1. Assess and report on the initial results of the IMPACT pilot.	X		
2. Bureau/Office efficiency initiatives reported in Quarterly Performance and Review Report.	X		
3. Ensure appropriate number of engineers, economists, and attorneys.	X		
4. All agency staff participates in appropriate career development discussions with their supervisor.	X		
5. Supervisory and managerial performance plans and awards are linked to the FCC's Strategic Plan goals and measures.	X		
6. Implement performance-based budgeting based on OMB guidelines.	X		
7. To improve FCC operations, conduct audits, assessments and evaluations and make recommendations (e.g., Fiscal Year Financial Statements, Federal Information Security Management Act Evaluations, and Continuity of Operations Plan (COOP)).	X		

FUTURE PERFORMANCE MEASURES

FY 2005 - 2006 Outcome Indicators:

- » Reducing the average time required to complete rulemakings (improve workflow, document, and knowledge management)
- » Increasing efficiency in the processing of workload, e.g., reducing rulemaking backlog and response times to consumer complaints (measured by and reported in the Quarterly Performance and Results Review)
- » Implementing Human Capital strategies to address skills and competencies required for accomplishment of strategic goals
- » Developing targeted skills and competencies for all FCC employees through appropriate career development aligned with strategic goals
- » Increasing rate of agency achievement of strategic objectives

FY05 Output 1 – Expand the use of technology to improve efficiency.

FY05 Output 2 – Reduce rulemaking backlog, respond to consumer complaints, and implement other Bureau/Office efficiency initiatives reported in the Quarterly Performance and Results Review.

FY05 Output 3 – Continue workforce planning effort to efficiently and effectively deploy our human resources.

FY05 Output 4 – Implement a learning management system.

FY05 Output 5 – Implement performance-based budgeting based on OMB guidelines.

FY05 Output 6 – Conduct audits, assessments, and evaluations and make recommendations.

FY05 Output 7 – Ensure compliance with all general administrative laws and regulations, including the Freedom of Information Act, procurement, ethics, employment, appropriations, and other rules and regulations pertaining to Federal agencies.

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3. Financial Statements and Auditors' Reports

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

During FY 2004, we continued to improve our ability to provide timely, accurate and useful financial information. This included successfully implementing the FCC's cost allocation system, BEAMS, which provides a robust and integrated addition to the Commission's financial management systems. The BEAMS fully supports the Statement of Net Cost for the financial statements, as well as detailed budget execution and FTE reporting to support improved management of Commission resources. The Commission is working to implement a fully integrated financial system in FY 2006.

We implemented an additional module in our Revenue and Accounting Management Information System during FY 2004. The Auctions module was implemented during the third quarter. This module automates the entire flow of information and financial activity for the FCC's auctions process, from collecting up-fronts and first-downs, to posting accounts receivables, and collecting final payments. A second module, International Telecommunications Settlement (ITS), automates the ITS program's invoice, billing, collection, and payment processes was fully accepted and placed in service October 2004.

In FY 2004, the Commission adopted a Report & Order to fully implement the Debt Collection and Improvement Act, and adopted rules governing the collection of debts owed the Commission, consistent with the Debt Collection and Improvement Act and the Treasury regulations. These changes, effective June 16, 2004, also increased the Commission's authority to compromise, suspend, or terminate debts up to $100,000, and increased the minimum amount of debt that may be transferred to the Department of Justice to $2,500 (up from $600). Starting November 1, 2004, the FCC will implement the "Red Light" rule, which requires pending applications to be dismissed if delinquent debt is not paid within 30 days of written notice. Additionally, the "Red Light" rule will require all licensing systems and bureau/office staff to check delinquent debt before issuing a license or permit, or granting a license or benefit.

At the end of FY 2003, USF receivables over 90-days old were transferred onto FCC's books for final collection activity and possible transfer to the Treasury for debt collection. In addition to USF debt, the FCC now is receiving the 91-day-old debt for TRS and the NANP. As a result of these efforts, in FY 2004, over $4.0 million was collected for the components, and $12.3 million of their debt was transferred to Treasury.

The Commission mailed fee assessment notifications to media services licensees for the first time in FY 2003.[1] For FY 2004, the FCC billed for the yearly regulatory fees for two services. The Commission mailed bills for regulatory fees to satellite space station licensees for their FY 2004 regulatory fees; last year, the same licensees received assessment letters only. Also during FY 2004, the FCC continued to generate and mail customized Interstate Telecommunications Service Provider Worksheets (FCC

[1] Fee assessments were issued for AM and FM Radio Stations and Construction Permits, FM Translators/Boosters, VHF and UHF Television Stations and Construction Permits, Satellite Television Stations, Low Power Television (LPTV) Stations, and LPTV Translators/Boosters. The FCC did not issue fee assessments for broadcast auxiliary stations in FY 2003 or FY 2004.

Form 159-W) to Interstate Telecommunications Service Providers (ITSPs). In the past, this customized FCC Form 159-W served as an assessment for ITSPs. This year, however, these bills were actually processed in the automated accounting system as accounts receivables. Both of these services accounted for approximately $141 million of the nearly $273 million assessed in FY 2004. We intend to expand these efforts, increasing the number of services billed each fiscal year.

As discussed in Chapter 1, the Management's Discussion and Analysis, this is the first year the FCC is incorporating the Federal Managers' Financial Integrity Act (FMFIA) findings into the Performance and Accountability Report. Exhibits 1 and 2 in Chapter 1 detail the pending and completed FMFIA material weaknesses and instances noted of non-conformances identified by the auditors, OIG and GAO. The exhibits detail the year first identified, the targeted corrective action date, key milestones for corrective action, and instances where the agency was not able to meet key milestones from the previous year. The FCC's first financial statement audit in FY 1999 identified numerous recommendations related to material weaknesses and instances noted of non-conformance. Over the past five years, the FCC has undertaken numerous corrective actions to address the material weaknesses and instances noted of non-conformances identified by OIG, GAO, and the independent auditors.

As of September 30, 2004, the Commission's financial condition is challenging. Challenges include the accounting and reporting of the USF under the GovGAAP requirements, the appropriate accounting for the USF funding commitment letters issued yearly, and the suitable recognition of recoveries of USF funds resulting from our expansion of beneficiary audit work. Payments to commercial vendors subject to the Prompt Payment Act were 96 percent on time, and 90 percent of payments were made electronically. Improper payments for the FCC Salaries & Expense Account were limited to less than 0.01 percent of the payments made.

The auditors recognized the challenging circumstances of fully integrating the USF into the FCC financial operations as reflected in their FY 2004 opinion. In the last few days of the fiscal year, it was determined that USF commitment letters were obligations of the U.S. Government. The FCC quickly directed a restructuring of the USF investment portfolio ($3.5 billion) and processed a sufficient increase to the USF apportionment ($10.5 billion) to assure that on September 30, 2004, the USF was not deficient. There was not enough time, however, to obtain adequate assurance that the financial data provided by USAC was sufficient for audit purposes. Accordingly, the FCC declined to provide assurance on the Statement of Budgetary Resources and the Statement of Financing. The auditors disclaimed on those two statements.

The FCC is committed to effectively managing its resources. Our goals and strategies for improving financial management focus on creating an environment, which helps maintain unqualified audit opinions, eliminates material internal control weaknesses and instances noted of non-conformance, and meets new and accelerated reporting requirements.

Through the efforts and teamwork of program, financial management, and audit staff, we continue to achieve our goals and ensure that our operations provide timely and reliable information that promotes results, accountability, and efficiency. I anticipate another productive year in FY 2005, and look forward to reporting our continued successes next year.

Mark Reger
Chief Financial Officer

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

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

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PRINCIPAL STATEMENTS

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

CONSOLIDATED BALANCE SHEET

As of September 30, 2004 and 2003
(Dollars in thousands)

	2004	2003
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	$ 487,904	$ 409,998
Investments (Note 5)	3,257,049	-
Accounts Receivable (Note 6)	7,907	10,451
Total Intragovernmental	3,752,860	420,449
Cash and Other Monetary Assets (Note 4)	291,612	2,412,912
Investments (Note 5)	319	326,389
Accounts Receivable, net (Note 6)	577,768	648,690
Loans Receivable, net (Note 7)	2,691,858	4,428,805
General Property, Plant, and Equipment, net (Note 9)	53,255	44,066
Other	26	-
Total Assets	$ 7,367,698	$ 8,281,311
LIABILITIES (Note 10)		
Intragovernmental		
Accounts Payable	$ -	$ 10
Debt (Note 11)	3,940,764	5,065,438
Other (Note 12)		
Custodial	310,130	230,052
Other	1,612	1,304
Total Other	311,742	231,356
Total Intragovernmental	4,252,506	5,296,804
Accounts Payable	56,377	64,708
Debt Held by the Public (Note 11)	-	55,848
Other (Note 12)		
Deferred Revenue	74,174	76,823
Prepaid Contributions	159,260	46,187
Deposit/Unapplied Liability	90,853	9,867
Accrued Liabilities for Universal Service	385,989	340,479
Other	42,906	39,300
Total Other	753,182	512,656
Total Liabilities	$ 5,062,065	$ 5,930,016
Commitments and Contingencies (Note 14)		
NET POSITION		
Unexpended Appropriations	$ 38,155	$ 43,055
Cumulative Results of Operations	2,267,478	2,308,240
Total Net Position	2,305,633	2,351,295
Total Liabilities and Net Position	$ 7,367,698	$ 8,281,311

CONSOLIDATED STATEMENT OF NET COST FY 2004

For the Year Ended September 30, 2004
(Dollars in thousands)

		2004
PROGRAM COSTS:		
Broadband:		
Intragovernmental gross costs	$	5,416
Less: Intragovernmental earned revenue		-
Intragovernmental net costs		5,416
Gross costs with the public		14,800
Less: Earned revenues from the public		(21,388)
Net costs with the public		(6,588)
Total net cost		(1,172)
Competition:		
Intragovernmental gross costs	$	32,847
Less: Intragovernmental earned revenue		-
Intragovernmental net costs		32,847
Gross costs with the public		5,940,956
Less: Earned revenues from the public		(125,921)
Net costs with the public		5,815,035
Total net cost		5,847,882
Spectrum:		
Intragovernmental gross costs	$	396,417
Less: Intragovernmental earned revenue		(52,656)
Intragovernmental net costs		343,761
Gross costs with the public		1,319,520
Less: Earned revenues from the public		(494,710)
Net costs with the public		824,810
Total net cost		1,168,571
Media:		
Intragovernmental gross costs	$	7,870
Less: Intragovernmental earned revenue		-
Intragovernmental net costs		7,870
Gross costs with the public		21,520
Less: Earned revenues from the public		(29,068)
Net costs with the public		(7,548)
Total net cost		322

CONSOLIDATED STATEMENT OF NET COST FY 2004 (Continued)

For the Year Ended September 30, 2004
(Dollars in thousands)

		2004
PROGRAM COSTS:		
Homeland Security:		
Intragovernmental gross costs	$	8,779
Less: Intragovernmental earned revenue		(544)
Intragovernmental net costs		8,235
Gross costs with the public		25,161
Less: Earned revenues from the public		(34,273)
Net costs with the public		(9,112)
Total net cost		(877)
Modernize the FCC:		
Intragovernmental gross costs	$	12,913
Less: Intragovernmental earned revenue		-
Intragovernmental net costs		12,913
Gross costs with the public		39,248
Less: Earned revenues from the public		(52,009)
Net costs with the public		(12,761)
Total net cost		152
Total Net Program Costs	$	7,014,878
Cost not Assigned to Programs:		
Telecommunications Development Fund		20
Other Expenses		4,924
Less: Earned Revenues not Attributed to Programs:		
Telecommunications Development Fund		(20)
Net Cost of Operations (Note 15)	$	7,019,802

CONSOLIDATED STATEMENT OF NET COST FY 2003

For the Year Ended September 30, 2003
(Dollars in thousands)

		2003
PROGRAM COSTS:		
Licensing:		
Intragovernmental gross costs	$	19,891
Less: Intragovernmental earned revenue		(293)
Intragovernmental net costs		19,598
Gross costs with the public		53,282
Less: Earned revenues from the public		(83,607)
Net costs with the public		(30,325)
Total net cost		(10,727)
Competition:		
Intragovernmental gross costs	$	30,151
Less: Intragovernmental earned revenue		(426)
Intragovernmental net costs		29,725
Gross costs with the public		80,772
Less: Earned revenues from the public		(122,055)
Net costs with the public		(41,283)
Total net cost		(11,558)
Enforcement:		
Intragovernmental gross costs	$	19,629
Less: Intragovernmental earned revenue		(271)
Intragovernmental net costs		19,358
Gross costs with the public		52,587
Less: Earned revenues from the public		(77,608)
Net costs with the public		(25,021)
Total net cost		(5,663)
Consumer Information Services:		
Intragovernmental gross costs	$	10,297
Less: Intragovernmental earned revenue		(142)
Intragovernmental net costs		10,155
Gross costs with the public		27,586
Less: Earned revenues from the public		(40,590)
Net costs with the public		(13,004)
Total net cost		(2,849)
Spectrum Management:		
Intragovernmental gross costs	$	14,621
Less: Intragovernmental earned revenue		(210)
Intragovernmental net costs		14,411
Gross costs with the public		39,166
Less: Earned revenues from the public		(60,178)
Net costs with the public		(21,012)
Total net cost		(6,601)

CONSOLIDATED STATEMENT OF NET COST FY 2003 (Continued)

For the Year Ended September 30, 2003
(Dollars in thousands)

		2003
PROGRAM COSTS:		
Universal Service:		
Intragovernmental gross costs	$	653
Less: Intragovernmental earned revenue		(9)
Intragovernmental net costs		644
Gross costs with the public		5,562,217
Less: Earned revenues from the public		(2,559)
Net costs with the public		5,559,658
Total net cost		5,560,302
Numbering:		
Intragovernmental gross costs	$	-
Less: Intragovernmental earned revenue		-
Intragovernmental net costs		-
Gross costs with the public		9,871
Less: Earned revenues from the public		(4,997)
Net costs with the public		4,874
Total net cost		4,874
Credit Reform:		
Intragovernmental gross costs	$	392,486
Less: Intragovernmental earned revenue		(39,718)
Intragovernmental net costs		352,768
Gross costs with the public		612,704
Less: Earned revenues from the public		(412,601)
Net costs with the public		200,103
Total net cost		552,871
Total Net Program Costs	$	6,080,649
Cost not Assigned to Programs:		
Depreciation	$	13,007
Telecommunications Development Fund		22
Other Expenses		549
Less: Earned Revenues not Attributed to Programs:		
Telecommunications Development Fund	$	(22)
Net Cost of Operations (Note 15)	$	6,094,205

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2004 and September 30, 2003
(Dollars in thousands)

	2004		2003	
	Cumulative Results of Operations	**Unexpended Appropriations**	**Cumulative Results of Operations**	**Unexpended Appropriations**
Beginning Balances	$ 2,308,240	$ 43,055	$ 2,104,985	$ 22,158
Budgetary Financing Sources:				
Appropriations received	-	639,087	-	536,292
Other adjustments (recission, etc) (+/-)	(3,358)	(1,673)	-	(991)
Appropriations used	642,314	(642,314)	514,404	(514,404)
Universal Fund Nonexchange Revenue	6,350,269	-	5,795,335	-
Loss on Disposition of Investments	(4,808)	-	-	-
Transfers-in/out without reimbursement (+/-)	-	-	(5,700)	-
Other budgetary financing sources	235	-	-	-
Other Financing Sources:				
Transfers-in/out without reimbursement (+/-)	(20,159)	-	(19,952)	-
Imputed financing from costs absorbed by others	14,547	-	13,404	-
Other (+/-)	-	-	(31)	-
Total Financing Sources	6,979,040	(4,900)	6,297,460	20,897
Less: Net Cost of Operations	7,019,802		6,094,205	
Ending Balances	$ 2,267,478	$ 38,155	$ 2,308,240	$ 43,055

UNAUDITED COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2004 and September 30, 2003
(Dollars in thousands)

	2004		2003	
	Budgetary	Non Budgetary Credit Program Financing Acct	Budgetary	Non Budgetary Credit Program Financing Acct
Budgetary Resources:				
Budget Authority				
Appropriations Received	$ 16,637,922	$ -	$ 6,279,518	$ -
Borrowing Authority	-	2,791	-	25,346
Unobligated Balance:				
Beginning of Period	2,016,229	46,031	2,245,581	21,569
Adjustment to Beginning Balance (Note 26)	(2,057,858)	-	-	-
Adjusted - Beginning of Period	(41,629)	46,031	2,245,581	21,569
Spending Authority from Offsetting Collections:				
Earned				
Collected	429,899	1,483,878	447,725	1,147,715
Receivable from Federal Sources	762	-	-	-
Changed Unfilled Customer Orders				
Advance Received	(1)	-	-	-
Without Advance from Federal Sources	(73)	-	(472)	-
Anticipated for rest of year, without advances	-	-	-	-
Subtotal	17,026,880	1,532,700	8,972,352	1,194,630
Recoveries of Prior Year Obligations	8,719	-	7,765	-
Temporarily not available pursuant to Public Law	(349)	-	-	-
Permanently not available	(60,805)	(1,127,464)	(66,860)	(730,823)
Total Budgetary Resources	$ 16,974,445	$ 405,236	$ 8,913,257	$ 463,807
Status of Budgetary Resources:				
Obligations Incurred (Note 16):				
Direct	$ 16,685,910	$ 345,729	$ 6,895,344	$ 417,776
Reimbursable	1,981	-	1,684	-
Subtotal	16,687,891	345,729	6,897,028	417,776
Unobligated Balance:				
Apportioned	2,612	434	-	-
Other Available	261,343	-	2,001,673	-
Unobligated Balance not Available	22,599	59,073	14,556	46,031
Total Status of Budgetary Resources	$ 16,974,445	$ 405,236	$ 8,913,257	$ 463,807
Relationship of Obligations to Outlays:				
Obligated Balance, net, Beginning of Period	$ 140,398	$ -	$ 452,831	$ -
Obligated Balance Transferred, net	-	-	-	-
Obligated Balance, net, End of Period:				
Accounts Receivable	(357)	-	405	-
Unfilled Customer Orders from Federal Sources	13	-	(60)	-
Undelivered Orders	2,951,556	-	70,646	-
Accounts Payable	71,044	-	409,886	-
Outlays:				
Disbursements	13,796,624	345,729	6,861,689	417,776
Collections	(429,897)	(1,483,878)	(447,725)	(1,147,715)
Subtotal	13,366,727	(1,138,149)	6,413,964	(729,939)
Less: Offsetting Receipts	20,159	-	19,952	-
Net Outlays	$ 13,346,568	$ (1,138,149)	$ 6,394,012	$ (729,939)

UNAUDITED CONSOLIDATED STATEMENT OF FINANCING

For the Years Ended September 30, 2004 and September 30, 2003
(Dollars in thousands)

	2004	2003
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations incurred	$ 17,038,518	$ 7,314,804
Less: Spending authority from offsetting collections and recoveries	1,923,184	1,602,733
Obligations net of offsetting collections and recoveries	15,115,334	5,712,071
Less: Offsetting receipts	20,159	19,952
Net obligations	15,095,175	5,692,119
Other Resources		
Transfers in/out without reimbursement (+/-)	20,159	19,952
Imputed financing from costs absorbed by others	14,547	13,404
Other (+/-)	-	31
Net other resources used to finance activities	34,706	33,387
Total resources used to finance activities	15,129,881	5,725,506
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 (+/-)	2,880,985	27,524
Resources that fund expenses recognized in prior periods	609,456	28,550
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	(1,486,208)	(1,172,627)
Other	375,259	452,052
Resources that finance the acquisition of assets	6,953,619	339,325
Other resources or adjustments to net obligated resources that do not affect net cost of operations (+/-)	375,373	10,028
Total resources used to finance items not part of the net cost of operations	9,708,484	(315,148)
Total resources used to finance the net cost of operations	5,421,397	6,040,654
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	1,079	1,411
Upward/Downward reestimates of credit subsidy (+/-)	1,197,215	71,949
Increase in exchange revenue receivable from the public	163	(5,065)
Other (+/-)	45,386	1,555
Total components of Net Cost of Operations that will require or generate resources in future periods	1,243,843	69,850
Components not Requiring or Generating Resources:		
Depreciation and Amortization	15,211	13,007
Revaluation of assets or liabilities (+/-)	-	-
Other (+/-)	339,351	(29,306)
Total components of Net Cost of Operations that will not require or generate resources	354,562	(16,299)
Total components of Net Cost of Operations that will not require or generate resources in the current period	1,598,405	53,551
Net Cost of Operations	$ 7,019,802	$ 6,094,205

CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY

For the Years Ended September 30, 2004 and September 30, 2003
(Dollars in thousands)

	2004	2003
Revenue Activity:		
Sources of Cash Collections:		
Spectrum Auctions	$ 205,024	$ 106,427
Fines and Penalties	24,636	51,682
Credit Reform Interest	343,257	392,486
TDA Interest	20	28
Total Cash Collections	572,937	550,623
Accrual Adjustments		
Spectrum Auctions	(63)	(1,420)
Fines and Penalties	(1,530)	291
TDA Interest	-	(6)
Total Accrual Adjustments	(1,593)	(1,135)
Total Custodial Revenue	571,344	549,488
Disposition of Collections:		
Transferred to Others:		
Recipient A: U.S. Treasury	(367,889)	(444,168)
Recipient B: FCC Financing Acct - Credit Reform (Recoveries)	-	(468,419)
(Increase)/Decrease in Amounts Yet to be Transferred	(80,078)	461,610
Refunds and Other Payments	(333)	(1,683)
Retained by the Reporting Entity	(123,044)	(96,828)
Net Custodial Activity	$ -	$ -

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004 and 2003
(Dollars in thousands unless otherwise stated)

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

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

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

Basis of Accounting and Presentation

The consolidated financial statements (financial statements) have been prepared from the accounting records of the FCC in conformity with U.S. Federal generally accepted accounting principles and the form and content for entity financial statements specified by the Office of Management and Budget in OMB Bulletin No. 01-09, as applicable.

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

Fund Balance with Treasury

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

Note 1 - Summary of Significant Accounting Policies (continued)

Cash and Other Monetary Assets

Cash and Other Monetary Assets represents cash on deposit at several commercial banks. The commercial accounts consist of Money Market Mutual Funds that can easily be drawn against. Cash on deposit typically exceeds federally insured limits.

Investments

Investments are reported net of any unamortized premium or discount. All investments are in marketable debt 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. The cost of PP&E transferred from other Federal entities is the net book value recorded by the transferring entity.

All PP&E with an initial acquisition cost of $25,000 or more and all internally developed software with a development cost of $50,000 or more, and with an estimated useful life of two years or greater are capitalized. Bulk purchases of similar items, individually worth less than $25,000 but collectively worth more than $250,000, are also capitalized using the same equipment categories and useful lives as capital acquisitions. PP&E are depreciated on a straight-line basis over the estimated useful life of the item. The useful lives used are: 40 years for buildings, seven years for equipment, five years for computers and vehicles, and three years for software. Land and land rights, including permanent improvements, are not depreciated, neither is software in development. Normal maintenance and repair costs are expensed as incurred.

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

Note 1 - Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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

Accounts Payable and Accrued Liabilities

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

Deferred Revenue

The FCC collects proceeds from the sale of communications spectrum on behalf of the U.S. Government. All proceeds collected up to the amount of the net winning bid are recognized as deferred revenue until a "prepared to grant" or "grant" public notice is issued. The FCC also 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. In addition, the TRS recognizes deferred revenue for contributions paid in full at the beginning of the funding year (July) and amortizes the revenue over the course of the funding year.

Debt to the U.S. Treasury

This account represents amounts due to the 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 FCC.

Retirement Plans and Other Benefits

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

Note 1 - Summary of Significant Accounting Policies (continued)

Retirement Plans and Other Benefits (continued)

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

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

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

Leave

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

Revenue and Other Financing Sources

<u>Regulatory Fee Collections (Exchange)</u> - The Omnibus Budget Reconciliation Act of 1993 directed the FCC to assess and collect regulatory fees to recover the costs incurred in carrying out certain provisions of its mission. Section 9(a) of the Act, as amended, authorizes the FCC to assess and collect annual regulatory fees to recover the costs, as determined annually by Congress, incurred in carrying out it's strategic goals of broadband, competition, spectrum, media, homeland security and modernize the FCC. These fees were established by congressional authority, and, consistent with OMB Circular No. A-25 revised, *User Charges*, the FCC did not determine the full costs associated with its regulatory activity in establishing regulatory fees. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected. Fees collected up to the level established by Congress are applied against the FCC's annual appropriation at the close of each fiscal year. The regulatory fee level for FY 2004 of $272,958 was achieved. The regulatory fee level for FY 2003 was $269,000, of which $265,746 was collected.

Note 1 - Summary of Significant Accounting Policies (continued)

Revenues and Other Financing Sources (continued)

Radio Spectrum Auction Proceeds (Exchange) – In accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources*, the FCC accounts for this exchange revenue as a custodial activity. Revenue from spectrum auctions is recognized when a "prepared to grant" or "grant" public notice establishes the final payment date. The value of available spectrum is determined by the market place at the time of auction. The FCC recognized revenue of $204,961 in FY 2004 and $105,007 in FY 2003.

Offsetting Collections (Exchange) – One of the FCC's primary functions is managing the spectrum auction program. Proceeds from the auctions are initially remitted to the FCC and are later transferred to the U.S. Treasury, net of anticipated auction related costs (under 47 U.S.C. Section 309, the FCC may retain a portion of the spectrum auction proceeds to offset the cost of performing the auction function). Collections used to offset the cost of performing auctions-related activity totaled $85,000 in FY 2004 and $96,806 in FY 2003.

Application Fees (Exchange) **-** Congress authorized the FCC (Section 8, 47 U.S.C.) to impose and collect application processing fees and directed the FCC to prescribe charges for certain types of application processing or authorization services it provides to communications entities over which the FCC has jurisdiction. The FCC amends its Schedule of Application Fees (47 C.F.R. Section 1.1102 et seq.) to adjust the fees for processing applications and other filings. Section 8(b) of the Act, as amended, requires the Commission to review and adjust its application fees every two years. The adjusted or increased fees reflect the net change in the Consumer Price Index for all Urban Consumers (CPI-U), calculated over a specific period of time**.** Application fees are deposited in the Treasury and are not available for the FCC's use. Application fees collected totaled $20,159 in FY 2004 and $19,952 in FY 2003.

Reimbursable Work Agreements (Exchange) – The FCC recognizes reimbursable work agreement revenue when earned, i.e., goods that have been delivered or services rendered. The FCC executed agreements totaling $1,668 in FY 2004 and $1,412 in FY 2003.

Annual Appropriations (Financing Source) – The FCC receives an annual Salaries and Expenses appropriation from Congress. These funds are used to pay for operations during the fiscal year and are repaid to the Treasury once regulatory fees are collected. The annual appropriation for FY 2004 was $273,947, with regulatory fee collections of $272,958, resulting in a net appropriation of $989. The appropriation for FY 2003 was $270,987, with anticipated regulatory fee collections of $269,000 and actual collections of $265,746, resulting in a net appropriation of $5,241.

Subsidy Estimates and Reestimates (Financing Source) – The FCC receives permanent-indefinite authority for its credit reform program account in accordance with the FCRA of 1990, as amended, to fund its subsidy estimates and reestimates, unless otherwise prescribed by OMB. This account records the subsidy costs associated with the direct loans obligated in 1992 and beyond (including modifications of direct loans or loan guarantees that resulted from obligations or commitments in any year), as well as administrative expenses of the loan program. The FCC received appropriations of $638,098 in FY 2004 and $531,052 in FY 2003 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 $6,350,269 in FY 2004 and $5,795,335 in FY 2003.

Transactions with Related Parties

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

Net Position

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

Reclassifications

Certain FY 2003 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation.

Note 2 - Non-entity Assets

The following summarizes Non-entity Assets as of September 30, 2004 and 2003:

	2004	2003
Intragovernmental:		
Fund Balance with Treasury	$ 328,473	$ 265,540
Accounts Receivable, Net	7,907	10,451
Total Intragovernmental	336,380	275,991
Cash and Other Monetary Asset	82,583	743
Accounts Receivable, Net	16,103	21,970
Total Non-entity Assets	435,066	298,704
Total Entity Assets	6,932,632	7,982,607
Total Assets	$ 7,367,698	$ 8,281,311

Non-entity Fund Balance with Treasury primarily represents deposits made towards spectrum auction winning bids. These deposits accounted for $326,284 in FY 2004 and $262,862 in FY 2003. Non-entity Cash and Other Monetary Assets consist of upfront deposits made by potential spectrum auction bidders. Receivables considered non-entity are for regulatory fees, application fees, fines and forfeitures, spectrum auction receivables, and ITS charges.

Note 3 - Fund Balance with Treasury

The following summarizes Fund Balance with Treasury as of September 30, 2004 and 2003:

Fund Balances:

	2004	2003
Appropriated Funds	$ 99,925	$ 98,428
Revolving Funds	59,506	46,030
Deposit Funds	328,473	265,540
Total Fund Balance	$ 487,904	$ 409,998

Status of Fund Balances:

	2004	2003
Unobligated Balance		
Available	$ 75,142	$ 50,807
Unavailable	338,050	275,322
Obligated Balance not yet disbursed	74,712	83,869
Total	$ 487,904	$ 409,998

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

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

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

Note 4 – Cash and Other Monetary Assets

The following summarizes Cash and Other Monetary Assets as of September 30, 2004 and 2003.

	2004	2003
Cash and Cash Equivalents	$ 289,714	$ 2,411,121
Accrued Interest	1,898	1,791
Total	$ 291,612	$ 2,412,912

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

In FY 2004, Cash and Other Monetary Assets included no deposits in transit and $82,583 in up-front deposits or related accrued interest being held for spectrum auctions. A total of $199,784 in USF contributions and related accrued interest is being held for distribution, as well as $9,245 in NANP deposits and related accrued interest. The significant decrease in the FY 2004 balance is a result of the liquidation of Money Market balances to purchase Treasury securities (see Note 24).

In FY 2003, Cash and Other Monetary Assets included $85 in deposits in transit and $743 in upfront deposits and related accrued interest being held for spectrum auctions. There were $2,400,128 in USF contributions and related accrued interest being held for distribution and $11,956 in NANP deposits and related accrued interest.

Note 5 - Investments

The following summarizes Investments as of September 30, 2004 and 2003:

FY 2004	Cost	Amortization Method	Unamortized (Premium) Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities:					
Marketable Securities:					
Treasury Bills	$3,236,836	EI	$ 6,914	$ 3,243,750	$3,236,860
Treasury Notes	19,961	EI	39	20,000	19,942
Accrued Interest	252	NA		-	252
Total	$3,257,049				$3,257,054
Other Securities:					
Marketable Securities	$ 317	EI	$ -	$ 317	$ 316
Accrued Interest	2	NA		-	2
Total	$ 319				$ 318

FY 2003	Cost	Amortization Method	Unamortized (Premium) Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities:					
Marketable Securities	$ -	EI	$ -	$ -	$ -
Accrued Interest	-	NA		-	-
Total	$ -				$ -
Other Securities:					
Marketable Securities	$ 324,313	EI	$ (2,110)	$ 322,203	$ 324,520
Accrued Interest	2,076	NA		-	2,076
Total	$ 326,389				$ 326,596

EI – Effective Interest Method
NA – Not Applicable

Prior to September 2004 Investments were held in a combination of Federal and Non-Federal low-risk marketable securities. In September 2004, existing Non-Federal Investments were liquidated and Federal marketable securities were purchased to create the Budgetary Authority needed to cover $2,900,130 in previously unrecorded obligations (see Note 24). The unanticipated sale of $3,450,310 in investments prior to maturity resulted in a net loss of $3,752. An additional net loss of $1,094 was incurred on the disposal of mutual funds that did not meet the investment guidelines of the FCC. Other transactions during the course of the year resulted in a net gain of $38.

The portfolio at the end of FY 2004 consisted primarily of Treasury Bills with original maturities not greater than 90 days. All Treasury securities, regardless of the original maturity date, are reported as Investments. The FCC generally expects to hold all investments to maturity; therefore, no adjustments have been made to present market values.

Note 6 - Accounts Receivable, Net

The following summarizes Accounts Receivable, Net as of September 30, 2004 and 2003:

	Intragovernmental	Public	Total
FY 2004			
Gross Accounts Receivable	$ 7,907	$1,255,303	$ 1,263,210
Allowance for Doubtful Accounts	(-)	(677,535)	(677,535)
Net Accounts Receivable	$ 7,907	$ 577,768	$ 585,675
Interest on Delinquent AR	$ -	$ 45,856	$ 45,856
FY 2003			
Gross Accounts Receivable	$ 10,451	$ 1,261,981	$ 1,272,432
Allowance for Doubtful Accounts	(-)	(613,291)	(613,291)
Net Accounts Receivable	$ 10,451	$ 648,690	$ 659,141
Interest on Delinquent AR	$ -	$ 32,076	$ 32,076

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

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

	FY 2004			FY 2003		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 762,723	$ (201,715)	$ 561,008	$ 809,491	$ (183,319)	$ 626,172
COMAD	31,063	(31,063)	-	-	-	-
Regulatory Fees	25,650	(14,231)	11,419	25,241	(9,331)	15,910
Spectrum Auction	401,366	(401,320)	46	377,707	(377,597)	110
Forfeitures	27,186	(24,963)	2,223	42,294	(40,417)	1,877
Other	15,222	(4,243)	10,979	17,699	2,627)	15,072
Total	$1,263,210	$ (677,535)	$ 585,675	$ 1,272,432	$ (613,291)	$ 659,141

Note 7 – Loans Receivable, Net

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

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

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

As required under the FCRA of 1990, as amended, the FCC coordinates with the OMB in developing estimation guidelines, regulations, and the criteria used in calculating the subsidy estimates and reestimates. This joint effort develops and improves cost and recovery rate estimates. The subsidy cost allowance has thus been prepared under specific OMB guidance in an effort to ensure the Federal Government's objectives are achieved, and may not represent the FCC's current policy position on the auction of spectrum previously held by other parties.

The most recent subsidy reestimate was completed in September 2004 for actual performance data through June 30, 2004 and estimated data from July through September, 2004. This reestimate resulted in a net upward adjustment of $732,660 reported in the FY 2004 financial statements. The increase was primarily due to recovery assumption changes stemming from the NextWave settlement agreement. The agreement is divided into three parts – licenses sold to Cingular Wireless, licenses retained by NextWave, and licenses returned to the FCC. On the licenses sold to Cingular the FCC recognized a recovery of $714,000 in the 3rd quarter of FY 2004 that was greater than the 100% of outstanding principal originally projected. On the licenses returned to the FCC, the FCC continues to project a 100% recovery. On the licenses retained by NextWave, the FCC adjusted the previous 100% recovery projection to reflect a recovery of only $398,100 against an original projection of $1,547,600, a decrease of $1,149,500.

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

Note 7 – Loans Receivable, Net (continued)

Accrued Interest – The FCC accrues interest on loans as it is earned. Current FCC policy automatically grants spectrum auction loans two sequential three-month grace periods for which borrowers are charged late fees. In accordance with FCC rules, at the end of the total six-month grace period loans are considered to be in default and the license is automatically cancelled. For financial reporting purposes, the FCC discontinues accruing interest on loans beyond the six-month grace period, since these loans are considered non-performing. Under FCC policy, only interest on the performing loans is accrued and recorded for financial reporting purposes.

In conjunction with the NextWave settlement agreement reached in FY 2004, the FCC adjusted the interest receivable from NextWave loans. The adjustment recognized interest receivable and revenue of approximately $1,913,127 in FY 2004, which represents true-up of interest through the point of the license sale or return, or through year-end for some licenses retained by NextWave. Prior to FY 2004, the NextWave loans were in bankruptcy and treated as non-performing loans where interest accruals were discontinued according to the policy stated above. The interest adjustment is recognized entirely in the current fiscal year because there is no effect, net of the subsidy amortization, on either the Loans Receivable, net or the Earned revenues from the public balances.

Direct Loans

Loan Program	Loans Receivable, Gross	Interest Receivable	Other Receivables	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Spectrum Auctions:					
FY 2004	$ 4,313,522	$ 2,189,035	$ 20,952	$ (3,831,651)	$ 2,691,858
FY 2003	$ 5,112,431	$ 280,681	$ 3,716	$ (968,023)	$ 4,428,805

Interest accrued on bankrupt and defaulted loans totaled $2,186,907 in FY 04 and $278,081 in FY 03.

Total Amount of Direct Loans Disbursed

Loan Program	FY 2004	FY 2003
Spectrum Auctions	$ -	$ -

No new loans were issued as of September 30, 2004 and 2003.

Subsidy Expense for Direct Loans by Program and Component

1. Subsidy Expense for New Direct Loans Disbursed:

Loan Program	Interest Differential	Defaults	Fees	Other	Total
FY 2004	$ -	$ -	$ -	$ -	$ -
FY 2003	$ -	$ -	$ -	$ -	$ -

Note 7 – Loans Receivable, Net (continued)

Subsidy Expense for Direct Loans by Program and Component

2. Direct Loan Modifications and Reestimates:

Loan Program	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Spectrum Auctions				
FY 2004 (Net)	$ -	$ -	$ 732,660	$ 732,660
FY 2003 (Net)	$ -	$ -	$ 380,055	$ 380,055

3. Total Direct Loan Subsidy Expense:

FY 2004	$ 732,660
FY 2003	$ 380,055

Subsidy Rates for Direct Loans by Program and Component

Loan Program	Interest Differential	Defaults	Fees	Other	Total
FY 2004	0 %	0 %	0%	0%	0%
FY 2003	0 %	0 %	0%	0%	0%

Schedule for Reconciling Subsidy Cost Allowance Balances

	2004	2003
Beginning Balance of the Subsidy Cost Allowance	$ 968,023	$ 329,067
Subsidy expense for direct loans disbursed:		
During the reporting years by component:		
Interest rate differential costs	-	-
Default costs (net of recoveries)	-	-
Adjustments:		
Recoveries	-	468,419
Loans written off	(77,674)	(50,134)
Subsidy allowance amortization	2,208,286	(160,520)
Other	356	1,136
Ending balance before reestimates	3,098,991	587,968
Subsidy reestimates:		
Technical/default reestimate	732,660	380,055
Ending balance of the subsidy cost allowance	$ 3,831,651	$ 968,023

Note 7 – Loans Receivable, Net (continued)

Administrative Expense	2004	2003
Spectrum Auctions	$ 43,608	$ 8,624

Note 8 – Seized and Forfeited Property

The FCC seizes property from illegally operated radio and other communication operations. The property is comprised of radio frequency, audio, and other communications equipment. Forfeited property consists of seized property legally turned over to the FCC. Although seized and forfeited property cannot be sold due to legal restrictions, and is not recognized for financial purposes, the quantity and value of seized and forfeited property is reported below. The property is tracked using the lot number assigned when seized. The following summarizes Seized and Forfeited Property as of September 30, 2004 and 2003:

	FY 2004		FY 2003	
	No. of Lots	Dollar Value	No. of Lots	Dollar Value
Seized Property				
Beginning Balance	37	$ 73	24	$ 53
Seized	21	20	18	36
Forfeited	(18)	(1)	(5)	(16)
Ending Balance	40	$ 92	37	$ 73

	FY 2004		FY 2003	
	No. of Lots	Dollar Value	No. of Lots	Dollar Value
Forfeited Property				
Beginning Balance	8	$ 6	7	$ 6
Forfeited	24	10	5	16
Disposed	(18)	(6)	(4)	(16)
Ending Balance	14	$ 10	8	$ 6

Note 9 - General Property, Plant and Equipment, Net

The following summarizes General PP&E as of September 30, 2004 and 2003:

	FY 2004			FY 2003			
Major Classes	Cost	Accum. Deprec	Net Book Value	Cost	Accum Deprec	Net Book Value	Estimated Useful Life
Land	$ 1,443	$ -	$ 1,443	$ 1,443	$ -	$ 1,443	N/A
Buildings	5,493	3,890	1,603	4,537	3,876	661	40
Non-Computer Equipment	36,220	28,413	7,807	34,579	24,243	10,336	7
Computer Equipment	27,756	16,048	11,708	23,777	15,121	8,656	5
Vehicle Systems	4,485	3,058	1,427	3,196	2,701	495	5
Leasehold Improvements	3,108	259	2,849	-	-	-	10
ADP Software	39,187	26,799	12,388	31,901	20,305	11,596	3
Software in Development	14,030	-	14,030	10,879	-	10,879	N/A
Total	$ 131,722	$ 78,467	$ 53,255	$110,312	$ 66,246	$ 44,066	

All asset classes are depreciated on a straight-line basis.

Note 10 - Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2004 and 2003:

	2004	2003
Intragovernmental:		
Other:		
FECA Liability	$ 448	$ 426
Other:		
Unfunded Leave	17,102	16,023
Accrued Liabilities for Universal Service	385,989	340,479
Total Liabilities not covered by budgetary resources	403,539	356,928
Total Liabilities covered by budgetary resources	4,658,526	5,573,088
Total Liabilities	$ 5,062,065	$ 5,930,016

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

	2003 Beginning Balance	Net Borrowing	2003 Ending Balance	Net Borrowing	2004 Ending Balance
Agency Debt:					
Held by the Public	$ 114,425	(58,577)	55,848	(55,848)	-
Other Debt:					
Debt to the Treasury	5,770,915	(705,477)	5,065,438	(1,124,674)	3,940,764
Total Debt	$ 5,885,340	$ (764,054)	$5,121,286	$(1,180,522)	$ 3,940,764

Classification of Debt:

	2004	2003
Debt to the Treasury	$ 3,940,764	$ 5,065,438
Debt held by the Public	-	55,848
Total Debt	$ 3,940,764	$ 5,121,286

Agency debt represents the remaining liability on an initial voucher of $125,274 issued to settle successful litigation against the FCC. The voucher can be used to satisfy existing spectrum auction loans and as credit for payment against spectrum auction winning bid amounts in future auctions. An extension was approved during FY 2004, extending the expiration date on the voucher to September 8, 2004.

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

Note 12 - Other Liabilities

The following summarizes Other Liabilities as of September 30, 2004 and 2003:

FY 2004	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 310,130	$ 310,130
Other:			
Accrued Payroll	-	1,164	1,164
FECA Liability	-	448	448
Total Other	-	1,612	1,612
Total Intragovernmental	$ -	$ 311,742	$ 311,742
Deferred Revenue	$ 16,967	$ 57,207	$ 74,174
Prepaid Contributions	-	159,260	159,260
Deposit/Unapplied Liability	-	90,853	90,853
Accrued Liabilities for Universal Service	-	385,989	385,989
Other:			
Accrued Payroll	-	6,316	6,316
Unfunded Leave	-	17,102	17,102
Other	-	19,488	19,488
Total Other	-	42,906	42,906
Total Other Public	$ 16,967	$ 736,215	$ 753,182

FY 2003	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 230,052	$ 230,052
Other:			
Accrued Payroll	-	878	878
FECA Liability	-	426	426
Total Other	-	1,304	1,304
Total Intragovernmental	$ -	$ 231,356	$ 231,356
Deferred Revenue	$ 15,911	$ 60,912	$ 76,823
Prepaid Contributions	-	46,187	46,187
Deposit/Unapplied Liability	-	9,867	9,867
Accrued Liabilities for Universal Service	-	340,479	340,479
Other:			
Accrued Payroll	-	4,813	4,813
Unfunded Leave	-	16,023	16,023
Other	-	18,464	18,464
Total Other	-	39,300	39,300
Total Other Public	$ 15,911	$ 496,745	$ 512,656

Note 12 - Other Liabilities (continued)

The Custodial Liability includes both cash collected and receivables being held for transfer to the Treasury's General Fund. The FCC collects the following types of custodial revenue: spectrum auction revenue, fines and forfeitures revenue, penalty revenue on regulatory fees, ITS processing fees, and interest revenue on auction deposits (held for TDF).

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

Note 13 - Leases

Operating Leases

The FCC has operating leases for rental of office space and office equipment. The copier lease arrangements are renewable annually with five possible annual renewal periods. As a Federal agency, the FCC is not liable for any lease terms beyond one year. The FCC anticipates that space levels consistent with FY 2004 will be required for the next five years and has estimated space and copier payments consistent with the schedule below. No estimates beyond five years have been provided because of the cancelable nature of the agreements.

Anticipated lease requirements are as follows:

Fiscal Year	Building	Copier	Total
2005	$ 38,493	$ 1,419	$ 39,912
2006	38,795	1,419	40,214
2007	39,104	1,419	40,523
2008	39,423	1,419	40,842
2009	39,423	1,419	40,842
Total Future Lease Payments	$ 195,238	$ 7,095	$202,333

Note 14 - Commitments and Contingencies

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

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

The FCC has examined its obligations related to FY 1999 canceled authority and believes it has no outstanding commitments requiring future resources.

Note 15 - Gross Costs and Earned Revenue by Budget Functional Classification

All FCC costs and revenues are reported under budget functional classification 376, Other Advancement of Commerce.

Note 16 - Apportionment Categories of Obligations Incurred

The following summarizes Apportionment Categories of Obligations Incurred as of September 30, 2004 and 2003:

	FY 2004		FY 2003	
	Budgetary	Non-Budgetary	Budgetary	Non-Budgetary
Direct				
Category A	$ 362,806	$ -	$ 370,522	$ -
Category B	16,323,104	345,729	555,202	417,776
Exempt from Apportionment	-	-	5,969,620	-
Total Direct	$ 16,685,910	$ 345,729	$ 6,895,344	$ 417,776
Reimbursable				
Category A	$ 1,981	$ -	$ 1,684	$ -
Category B	-	-	-	-
Exempt from Apportionment	-	-	-	-
Total Reimbursable	$ 1,981	$ -	$ 1,684	$ -

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

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

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

With the exception of a monetary credit that resulted as a judgment against the FCC, all borrowings are from the BPD. In accordance with applicable standards, all funds are borrowed at the beginning of the period. Therefore, the FCC does not carry over any unused borrowing authority. Repayments of borrowings are made in accordance with the terms of the FCRA of 1990, as amended. Financing sources for repayment are collections from borrowers or subsidy. The FCC had no available borrowing authority at September 30, 2004.

Note 18 - Terms of Borrowing Authority Used

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

Note 19 – Legal Arrangements Affecting Use of Unobligated Balances

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

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

The schedule below presents differences for FY 2003. The *Budget of the United States Government* with actual numbers for FY 2004 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 2003	President's Budget 2003	Difference	
Budget Authority	$ 6,305	$ 6,298	$ (7)	A
Unobligated Balances – Beginning of Period	2,267	2,294	27	B
Spending Authority from Offsetting Collections	1,595	1,595	-	
Adjustments	(790)	(788)	2	C
Total Budgetary Resources	9,377	9,399	22	
Status of Budgetary Resources ($ in millions):				
Obligations Incurred	$ 7,314	$ 7,346	$ 32	D
Unobligated Balances – Available	2,002	2,053	51	E
Unobligated Balances – Not Available	61	-	(61)	F
Total, Status of Budgetary Resources	9,377	9,399	22	
Outlays ($ in millions):				
Obligations Incurred	$ 7,314	$ 7,346	$ 32	D
Less: Spending Authority from Offsetting Collections and Adjustments	(1,595)	(1,595)	-	
Obligated Balance, net – Beginning of Period	453	453	-	
Less: Obligated Balance, net – End of Period	(481)	(481)	-	
Total Outlays	5,691	5,723	32	D
Less: Offsetting Receipts	20	20	-	
Net Outlays	$ 5,671	$ 5,703	$ 32	

A – The budget includes the rescission of ($7) million on this line while the financial statements report the rescission on the adjustments line.

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

B – A correction was made to the financial statement balances in FY 2002 for outstanding USF checks of $35 million. The correction was processed after the submission of the budget and resulted in a difference in the ending unobligated balance. The difference is carried forward from the ending balance to the beginning balance in FY 2003 and was corrected through outlays in FY 2003. The FY 2003 ending unobligated USF balances agree. The other portion of the difference is the exclusion of ($8) million in unobligated balances – unavailable from the budget, which only incorporates available authority.

C – The budget does not include recoveries of ($8) million or cancelled authority of $3 million on the adjustments line. Additionally, rescinded authority of $6 million is included as part of budget authority instead of adjustments (See A). The remaining $1 million is the result of rounding.

D – The USF correction in Explanation B accounts for $35 million and the exclusion of upward adjustments in the budget accounts for the remaining ($3) million.

E – The unobligated balances for all no-year accounts, totaling $51 million, are reported in the budget as available but are reported as unavailable in the financial statements until they are re-apportioned the following year.

F – The financial statements include expired unobligated balances of ($10) million, while the budget does not reflect this amount. In addition, the budget reports ($51) million in unobligated balances for no-year accounts on the available line (see Explanation E).

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

Three amounts are shown in Note 10 as not covered by budgetary resources: FECA Liability, Unfunded Leave, and Accrued Liabilities for Universal Service. The increase in FECA Liability of $22 is included as part of the Resources that fund expenses recognized in prior periods line item. The changes in the other two balances between FY 2003 and FY 2004 are reflected as part of Components Requiring or Generating Resources in Future Periods on the Statement of Financing. The increase in Unfunded Leave of $1,079 is included in the increase in Annual Leave line item while the increase in Accrued Liabilities for Universal Service of $45,510 is reflected in the Other line item.

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

The FCC collects applications fees to cover the cost of processing license applications. The FCC reports the revenue associated with these fees as a revenue source on its Statement of Net Cost, but does not retain the fees. To reflect the transfer of these fees to the Treasury, the FCC recognizes a transfer out on the Statement of Changes in Net Position. The amount of $20,159 included in the Offsetting Receipts line on the Statement of Financing is the total transferred for application fees.

Note 23 - Dedicated Collections

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

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

The following summarizes Dedicated Collections as of September 30, 2004 and 2003:

	FY 2004	FY 2003
Assets		
Cash and Other		
Monetary Asset (Note 4)	$ 199,784	$ 2,400,128
Investments (Note 5)	3,257,368	326,389
Accounts Receivable, Net (Note 6)	$ 561,157	$ 626,172
Liabilities & Net Position		
Accounts Payable	$ 47,413	$ 56,185
Unearned Revenue	30,000	13,400
Prepaid Contributions	159,221	46,168
Accrued Liabilities	385,989	340,479
Net Position	$ 3,395,686	$ 2,896,457
Revenues & Expenses		
Contributions	$ 6,309,741	$ 5,765,603
Interest Revenue	36,162	29,732
Penalty Revenue	4,366	-
Provider Related Expenses	$ 5,779,605	$ 5,501,751
Fund Administration Expenses	66,627	58,718
Loss on Disposition of Investments	4,808	-

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

Note 24 – Comparability of the Financial Statements

At the end of FY 2003 the FCC issued an order to the USAC requiring them to establish an internal accounting structure that was capable of reporting the activities of the USF in accordance with Governmental GAAP beginning in FY 2005. During the course of working with its component entities to bring them into compliance, the FCC and USAC began to address issues concerning the recognition of commitment letters and Money Market fund purchases that represented a substantial increase to the obligations of the fund. These issues could not be resolved until the final weeks of the 2004 fiscal year. The timing of the resolution prevented the FCC management from performing the steps necessary to obtain adequate assurance on the financial data provided for the Combined Statement of Budgetary Resources (SBR) and Consolidated Statement of Financing (SOF), relative to the changes made surrounding these issues. The impact on the comparability of the financial statements regarding these issues and a change in reporting related to net costs is discussed in the paragraphs below.

In FY 2003 the FCC reported Money Market funds on the Balance Sheet as cash equivalents and as available budgetary authority on the SBR. In FY 2004, subsequent re-evaluation of OMB Circular A-11 (OMB A-11) *Preparation, Submission, and Execution of the Budget*, guidance led the FCC to believe that if the Money Market shares are not purchased in funds backed wholly by Treasury securities, they should be recorded as outlays and therefore do not represent available budgetary authority. Accordingly, Money Market funds were reported as outlays in FY 2004. The effects of this correction on FY 2003 could not be determined; hence the amounts presented in the FY 2003 SBR and SOF were not restated. A beginning balance decrease of $2,398,337 was made to the Unobligated Balance: Beginning of Period in FY 2004 to reflect the impact on opening balances. This adjustment is part of the total amount of $2,057,858 reported as the Adjustment to Beginning Balance on the SBR.

In FY 2003, purchases of investments were recorded as disbursements/obligations incurred and receipts were recorded as an offset to disbursements/obligations incurred. In connection with the determination above and further discussion with both Treasury and OMB in FY 2004 it was also determined that the redemption of investments should be recorded as a receipt instead of an offset to disbursements/obligations. In FY 2004, the FCC made the changes necessary to report investment activity in accordance with the Treasury Financial Manual (TFM) Volume I, Part 2, Chapter 3400; Accounting for and Reporting on Cash and Investments Held Outside of the U.S. Treasury and OMB A-11. The effects of this correction on FY 2003 could not be determined; hence, the amounts presented in the FY 2003 SBR and SOF were not restated.

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

Note 24 – Comparability of the Financial Statements (continued)

In FY 2004, the FCC, in consultation with the OMB, determined that USF commitment letters for the Schools and Libraries and Rural Health Care programs met the definition of an obligation. In response to this determination, the USF recorded an obligation of $2,900,130, which is equal to the outstanding balance on all previously issued commitment letters as of September 30, 2004. In addition, the USF, which was an appropriation not subject to apportionment in prior years, was apportioned by OMB for the first time in FY 2004. Due to the timing of the change, FCC management was unable to determine the completeness and accuracy of the budgetary information related to these commitment letters reported in the SBR and SOF for the year ended September 30, 2004.

A reporting change was also made for FY 2004 that impacted the comparability of the FY 2004 Statement of Net Cost with FY 2003. Effective for FY 2004, the FCC began accounting for costs under the new strategic goals presented in the FY 2003-2008 Strategic Plan. These goals replaced the activity based programs included in the previous Strategic Plan.

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REQUIRED SUPPLEMENTARY INFORMATION

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

INTRAGOVERNMENTAL ASSETS

As of September 30, 2004
(Dollars in thousands)

Intra-Governmental Assets

Partner Code	Trading Partner	Fund Balance	Accounts Receivable	Investments	Total
13	NTIA		340		340
15	Department of Justice		1		1
17	Navy		443		443
19	Department of State		4		4
20	Department of Treasury	487,904	-	3,257,049	3,744,953
21	Army		1,785		1,785
24	Office of Personnel Management		4		4
47	Genersal Services Administration		3		3
57	Air Force		42		42
69	Department of Transportation		17		17
70	Homeland Security		79		79
80	NASA		1		1
95	Board of International Broadcasting		45		45
97	Department of Defense	-	5,143		5,143
	Total	**487,904**	**7,907**	**3,257,049**	**3,752,860**

Intra-Governmental Liabilities

Partner Code	Trading Partner	Accounts Payable	Borrowings From Treasury (BPD)	Other Liabilities	Total
	Funded				
20	Department of Treasury	-	3,940,764	-	3,940,764
16	Department of Labor	-	-	448	448
24	Office of Personnel Management	-	-	1,164	1,164
99	General Fund/Other	-	-	310,130	310,130
	Total	-	**3,940,764**	**311,742**	**4,252,506**

INTRAGOVERNMENTAL EARNED REVENUES AND RELATED COSTS

As of September 30, 2004
(Dollars in thousands)

Intragovernmental Earned Revenues and Related Costs

Partner Code	Trading Partner	Earned Revenue	Expenses
03	Library of Congress	$ -	$ 9
04	Government Printing Office	-	1,529
10	Judiciary System	-	2
11		1	-
12	Department of Agriculture & NFC	-	232
13	Department of Commerce	358	103
14	Department of Interior	-	4,415
15	Department Of Justice	150	21,641
16	Department of Labor	-	260
18	United States Postal Service	-	258
19	U. S. Department of State	-	6
20	Department of Treasury	51,564	343,403
24	Office of Personnel Management	4	41,844
45	Equal Employment Opportunity	-	3
47	General Services Administration	-	41,253
69	Dept. of Transportation - USCG	-	165
70	Homeland Security Admin.	352	47
75	Health and Human Services -FOH	-	51
95	Board for International Broadcasting	221	1
97	Department of Defense	550	103
99	U S Treasury General Fund/Payroll Taxes	-	8,917
	Total	53,200	464,242

Collections on Behalf of the US Treasury (SGL 5990-5991)

99	General Fund	(533,307)	

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

DEFERRED MAINTENANCE

As of September 30, 2004
(Dollars in thousands)

To determine the original estimated cost of deferred maintenance in FY 2000, the FCC contracted with professional building inspectors to inspect its real property holdings, including buildings and structures. The inspection reports were, in most cases, comprehensive reviews of the buildings and ground conditions and included all items that required attention, whether critical to the functionality of the building or a cosmetic feature. Each year, the FCC updates the report from the previous year for items completed and newly identified projects. The estimated deferred maintenance for FY 2004 is $1,411.

CONSOLIDATING BALANCE SHEET

As of September 30, 2004
(Dollars in thousands)

	FCC	USF	NANP	Eliminations	Consolidated
ASSETS					
Intragovernmental					
Fund Balance with Treasury (Note 3)	$ 487,904	$ -	$ -	$ -	$ 487,904
Investments (Note 5)		3,257,049	-	-	3,257,049
Accounts Receivable (Note 6)	7,907	-	-	-	7,907
Total Intragovernmental	495,811	3,257,049	-	-	3,752,860
Cash and Other Monetary Assets (Note 4)	82,583	199,784	9,245	-	291,612
Investments (Note 5)	-	319	-	-	319
Accounts Receivable, net (Note 6)	67,947	561,157	302	(51,638)	577,768
Loans Receivable, net (Note 7)	2,691,858	-	-	-	2,691,858
General Property, Plant, and Equipment, net (Note 9)	53,255	-	-	-	53,255
Other	-	-	26	-	26
Total Assets	$ 3,391,454	$ 4,018,309	$ 9,573	$ (51,638)	$ 7,367,698
LIABILITIES					
Intragovernmental					
Accounts Payable	$ -	$ -	$ -	$ -	$ -
Debt (Note 11)	3,940,764	-	-	-	3,940,764
Other (Note 12)					
Custodial	310,130	-	-	-	310,130
Other	1,612	-	-	-	1,612
Total Other	311,742	-	-	-	311,742
Total Intragovernmental	4,252,506	-	-	-	4,252,506
Accounts Payable	6,006	47,413	2,958	-	56,377
Debt Held by the Public (Note 11)	-		-	-	-
Other (Note 12)					
Deferred Revenue	42,139	30,000	2,035	-	74,174
Prepaid Contributions	-	159,221	39	-	159,260
Deposit/Unapplied Liability	90,853	-	-	-	90,853
Accrued Liabilities for Universal Service	-	385,989	-	-	385,989
Other	94,544	-	-	(51,638)	42,906
Total Other	227,536	575,210	2,074	(51,638)	753,182
Total Liabilities	$ 4,486,048	$ 622,623	$ 5,032	$ (51,638)	$ 5,062,065
Commitments and Contingencies (Note 14)					
NET POSITION					
Unexpended Appropriations	$ 38,155	$ -	$ -	$ -	$ 38,155
Cumulative Results of Operations	(1,132,749)	3,395,686	4,541	-	2,267,478
Total Net Position	(1,094,594)	3,395,686	4,541	-	2,305,633
Total Liabilities and Net Position	$ 3,391,454	$ 4,018,309	$ 9,573	$ (51,638)	$ 7,367,698

CONSOLIDATING STATEMENT OF NET COST

As of September 30, 2004
(Dollars in thousands)

	FCC	USF	NANP	Consolidated
PROGRAM COSTS:				
Broadband:				
Intragovernmental gross costs	$ 5,416	$ -	$ -	$ 5,416
Less: Intragovernmental earned revenue	-	-	-	-
Intragovernmental net costs	5,416	-	-	5,416
Gross costs with the public	14,800	-	-	14,800
Less: Earned revenues from the public	(21,388)	-	-	(21,388)
Net costs with the public	(6,588)	-	-	(6,588)
Total net cost	(1,172)	-	-	(1,172)
Competition:				
Intragovernmental gross costs	$ 32,847	$ -	$ -	$ 32,847
Less: Intragovernmental earned revenue	-	-	-	-
Intragovernmental net costs	32,847	-	-	32,847
Gross costs with the public	86,768	5,846,232	7,956	5,940,956
Less: Earned revenues from the public	(120,656)	-	(5,265)	(125,921)
Net costs with the public	(33,888)	5,846,232	2,691	5,815,035
Total net cost	(1,041)	5,846,232	2,691	5,847,882
Spectrum:				
Intragovernmental gross costs	$ 396,417	$ -	$ -	$ 396,417
Less: Intragovernmental earned revenue	(52,656)	-	-	(52,656)
Intragovernmental net costs	343,761	-	-	343,761
Gross costs with the public	1,319,520	-		1,319,520
Less: Earned revenues from the public	(494,710)	-		(494,710)
Net costs with the public	824,810	-	-	824,810
Total net cost	1,168,571	-	-	1,168,571
Media:				
Intragovernmental gross costs	$ 7,870	$ -	$ -	$ 7,870
Less: Intragovernmental earned revenue	-	-	-	-
Intragovernmental net costs	7,870	-	-	7,870
Gross costs with the public	21,520	-	-	21,520
Less: Earned revenues from the public	(29,068)	-	-	(29,068)
Net costs with the public	(7,548)	-	-	(7,548)
Total net cost	322	-	-	322
Homeland Security:				
Intragovernmental gross costs	$ 8,779	$ -	$ -	$ 8,779
Less: Intragovernmental earned revenue	(544)	-	-	(544)
Intragovernmental net costs	8,235	-	-	8,235
Gross costs with the public	25,161	-	-	25,161
Less: Earned revenues from the public	(34,273)	-	-	(34,273)
Net costs with the public	(9,112)	-	-	(9,112)
Total net cost	(877)	-	-	(877)
Modernize the FCC:				
Intragovernmental gross costs	$ 12,913	$ -	$ -	$ 12,913
Less: Intragovernmental earned revenue	-	-	-	-
Intragovernmental net costs	12,913	-	-	12,913
Gross costs with the public	39,248	-	-	39,248
Less: Earned revenues from the public	(52,009)	-	-	(52,009)
Net costs with the public	(12,761)	-	-	(12,761)
Total net cost	152	-	-	152
Total Net Program Costs	$ 1,165,955	$ 5,846,232	$ 2,691	$ 7,014,878
Cost not Assigned to Programs:				
Telecommunications Development Fund	20	-	-	20
Other Expenses	4,924	-	-	4,924
Less: Earned Revenues not Attributed to Programs:				
Telecommunications Development Fund	(20)	-	-	(20)
Net Cost of Operations (Note 15)	$ 1,170,879	$ 5,846,232	$ 2,691	$ 7,019,802

CONSOLIDATING STATEMENT OF CHANGES IN NET POSITION

As of September 30, 2004
(Dollars in thousands)

	FCC		USF		NANP		Consolidated	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ (595,449)	$ 43,055	$ 2,896,457	$ -	$ 7,232	$ -	$ 2,308,240	$ 43,055
Budgetary Financing Sources:								
Appropriations received	-	639,087	-	-	-	-	-	639,087
Other adjustments (recission, etc) (+/-)	(3,358)	(1,673)	-	-	-	-	(3,358)	(1,673)
Appropriations used	642,314	(642,314)	-	-	-	-	642,314	(642,314)
Universal Fund Nonexchange Revenue	-	-	6,350,269	-	-	-	6,350,269	-
Loss on Disposition of Investments	-	-	(4,808)	-	-	-	(4,808)	-
Transfers-in/out without reimbursement (+/-)	-	-	-	-	-	-	-	-
Other budgetary financing sources	235	-	-	-	-	-	235	-
Other Financing Sources:								
Transfers-in/out without reimbursement (+/-)	(20,159)	-	-	-	-	-	(20,159)	-
Imputed financing from costs absorbed by others	14,547	-	-	-	-	-	14,547	-
Other (+/-)	-	-	-	-	-	-	-	-
Total Financing Sources	633,579	(4,900)	6,345,461	-	-	-	6,979,040	(4,900)
Less: Net Cost of Operations	1,170,879		5,846,232		2,691		7,019,802	
Ending Balances	$ (1,132,749)	$ 38,155	$ 3,395,686	$ -	$ 4,541	$ -	$ 2,267,478	$ 38,155

UNAUDITED COMBINING STATEMENT OF BUDGETARY RESOURCES

As of September 30, 2004
(Dollars in thousands)

	FCC		USF		Combined	
	Budgetary	Non Budgetary Credit Program Financing Acct	Budgetary	Non Budgetary Credit Program Financing Acct	Budgetary	Non Budgetary Credit Program Financing Acct
Budgetary Resources:						
Budget Authority						
Appropriations Received	$ 639,087	$ -	$ 15,998,835	$ -	$ 16,637,922	$ -
Borrowing Authority	-	2,791	-	-	-	2,791
Unobligated Balance:						
Beginning of Period	14,556	46,031	2,001,673	-	2,016,229	46,031
Adjustment to Beginning Balance (Note 25)	-	-	(2,057,858)	-	(2,057,858)	-
Adjusted - Beginning of Period	14,556	46,031	(56,185)	-	(41,629)	46,031
Spending Authority from Offsetting Collections:						
Earned						
Collected	429,899	1,483,878	-	-	429,899	1,483,878
Receivable from Federal Sources	762	-	-	-	762	-
Changed Unfilled Customer Orders					-	
Advance Received	(1)	-	-	-	(1)	-
Without Advance from Federal Sources	(73)	-	-	-	(73)	-
Anticipated for rest of year, without advances	-	-	-	-	-	-
Subtotal	1,084,230	1,532,700	15,942,650	-	17,026,880	1,532,700
Recoveries of Prior Year Obligations	8,719	-	-	-	8,719	-
Temporarily not available pursuant to Public Law	(349)				(349)	-
Permanently not available	(60,805)	(1,127,464)	-	-	(60,805)	(1,127,464)
Total Budgetary Resources	$ 1,031,795	$ 405,236	$ 15,942,650	$ -	$ 16,974,445	$ 405,236
Status of Budgetary Resources:						
Obligations Incurred (Note 16):						
Direct	$ 1,004,603	$ 345,729	$ 15,681,307	$ -	$ 16,685,910	$ 345,729
Reimbursable	1,981	-	-	-	1,981	-
Subtotal	1,006,584	345,729	15,681,307	-	16,687,891	345,729
Unobligated Balance:						
Apportioned	2,612	434	-	-	2,612	434
Other Available	-	-	261,343	-	261,343	-
Unobligated Balance not Available	22,599	59,073	-	-	22,599	59,073
Total Status of Budgetary Resources	$ 1,031,795	$ 405,236	$ 15,942,650	$ -	$ 16,974,445	$ 405,236
Relationship of Obligations to Outlays:						
Obligated Balance, net, Beginning of Period	$ 84,213	$ -	$ 56,185	$ -	$ 140,398	$ -
Obligated Balance Transferred, net	-	-	-	-	-	-
Obligated Balance, net, End of Period:						
Accounts Receivable	(357)	-	-	-	(357)	-
Unfilled Customer Orders from Federal Sources	13	-	-	-	13	-
Undelivered Orders	51,426	-	2,900,130	-	2,951,556	-
Accounts Payable	23,631	-	47,413	-	71,044	-
Outlays:						
Disbursements	1,006,675	345,729	12,789,949	-	13,796,624	345,729
Collections	(429,897)	(1,483,878)	-	-	(429,897)	(1,483,878)
Subtotal	576,778	(1,138,149)	12,789,949	-	13,366,727	(1,138,149)
Less: Offsetting Receipts	20,159	-	-	-	20,159	-
Net Outlays	556,619	(1,138,149)	12,789,949	-	13,346,568	(1,138,149)

UNAUDITED CONSOLIDATING STATEMENT OF FINANCING

As of September 30, 2004
(Dollars in thousands)

	FCC	USF	NANP	Consolidated
Resources Used to Finance Activities:				
Budgetary Resources Obligated				
Obligations incurred	$ 1,352,313	$ 15,686,205	$ -	$ 17,038,518
Less: Spending authority from offsetting collections and recoveries	1,923,184	-	-	1,923,184
Obligations net of offsetting collections and recoveries	(570,871)	15,686,205	-	15,115,334
Less: Offsetting receipts	20,159	-	-	20,159
Net obligations	(591,030)	15,686,205	-	15,095,175
Other Resources				
Transfers in/out without reimbursement (+/-)	20,159	-	-	20,159
Imputed financing from costs absorbed by others	14,547	-	-	14,547
Other (+/-)	-	-	-	-
Net other resources used to finance activities	34,706	-	-	34,706
Total resources used to finance activities	(556,324)	15,686,205	-	15,129,881
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 (+/-)	(19,145)	2,900,130	-	2,880,985
Resources that fund expenses recognized in prior periods	609,456	-	-	609,456
Budgetary offsetting collections and receipts that do not affect net cost of operations				
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	(1,486,208)	-	-	(1,486,208)
Other	375,259	-	-	375,259
Resources that finance the acquisition of assets	23,455	6,930,164	-	6,953,619
Other resources or adjustments to net obligated resources that do not affect net cost of operations (+/-)	(56,276)	431,649	-	375,373
Total resources used to finance items not part of the net cost of operations	(553,459)	10,261,943	-	9,708,484
Total resources used to finance the net cost of operations	(2,865)	5,424,262	-	5,421,397
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:				
Components Requiring or Generating Resources in Future Periods:				
Increase in annual leave liability	1,079	-	-	1,079
Upward/Downward reestimates of credit subsidy (+/-)	1,197,215	-	-	1,197,215
Increase in exchange revenue receivable from the public	163	-	-	163
Other (+/-)	(124)	45,510	-	45,386
Total components of Net Cost of Operations that will require or generate resources in future periods	1,198,333	45,510	-	1,243,843
Components not Requiring or Generating Resources:				
Depreciation and Amortization	15,211	-	-	15,211
Other (+/-)	(39,800)	376,460	2,691	339,351
Total components of Net Cost of Operations that will not require or generate resources	(24,589)	376,460	2,691	354,562
Total components of Net Cost of Operations that will not require or generate resources in the current period	1,173,744	421,970	2,691	1,598,405
Net Cost of Operations	$ 1,170,879	$ 5,846,232	$ 2,691	$ 7,019,802

UNAUDITED REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF BUDGETARY RESOURCES

For the Period Ended September 30, 2004 and 2003
(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, 2004 and September 30, 2003 Combined Statement of Budgetary Resources.

FY2004	**S&E**	**Credit**	**Auctions**	**USF**	**Total**
Budgetary Resources:					
Budget authority	$ 990	$ 640,888	$ -	$ 15,998,835	$ 16,640,713
Unobligated balances - beginning of period	4,451	49,988	6,148	(56,185)	4,402
Spending authority from offsetting collections	343,217	1,486,248	85,000	-	1,914,465
Adjustments	(51,173)	(1,127,277)	(1,449)	-	(1,179,899)
Total budgetary resources	$ 297,485	$ 1,049,847	$ 89,699	$ 15,942,650	$ 17,379,681
Status of Budgetary Resources:					
Obligations incurred	$ 279,480	$ 987,526	$ 85,307	$ 15,681,307	$ 17,033,620
Unobligated balances - available	(15)	3,060	1	261,343	264,389
Unobligated balances - not available	18,020	59,261	4,391	-	81,672
Total, status of budgetary resources	$ 297,485	$ 1,049,847	$ 89,699	$ 15,942,650	$ 17,379,681
Relationship of Obligations to Outlays:					
Obligated balance, net, beginning of period	$ 35,579	$ 17,888	$ 30,746	$ 56,185	$ 140,398
Obligated balance transferred, net	-	-	-	-	-
Obligated balance, net, end of period	30,229	15,804	28,680	2,947,543	3,022,256
Outlays:					
Disbursements	277,396	989,422	85,586	12,789,949	14,142,353
Collections	(342,527)	(1,486,248)	(85,000)	-	(1,913,775)
Subtotal	(65,131)	(496,826)	586	12,789,949	12,228,578
Less: Offsetting Receipts	20,159	-	-	-	20,159
Net Outlays	$ (85,290)	$ (496,826)	$ 586	$ 12,789,949	$ 12,208,419

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

For the Period Ended September 30, 2004 and 2003
(Dollars in thousands)

FY 2003	**S&E**	**Credit**	**Auctions**	**USF**	**Total**
Budgetary Resources:					
Budget authority	$ 5,241	$ 556,397	$ -	$ 5,743,226	$ 6,304,864
Unobligated balances - beginning of period	8,350	24,462	6,271	2,228,067	2,267,150
Spending authority from offsetting collections	325,266	1,172,895	96,807	-	1,594,968
Adjustments	(59,257)	(730,789)	128	-	(789,918)
Total budgetary resources	$ 279,600	$ 1,022,965	$ 103,206	$ 7,971,293	$ 9,377,064
Status of Budgetary Resources:					
Obligations incurred	$ 275,149	$ 972,977	$ 97,058	$ 5,969,620	$ 7,314,804
Unobligated balances - available	-	-	-	2,001,673	2,001,673
Unobligated balances - not available	4,451	49,988	6,148	-	60,587
Total, status of budgetary resources	$ 279,600	$ 1,022,965	$ 103,206	$ 7,971,293	$ 9,377,064
Relationship of Obligations to Outlays:					
Obligated balance, net, beginning of period	$ 31,487	$ 2,919	$ 21,245	$ 397,180	$ 452,831
Obligated balance transferred, net	-	-	-	-	-
Obligated balance, net, end of period	35,579	17,888	30,746	396,664	480,877
Outlays:					
Disbursements	265,723	957,974	85,632	5,970,136	7,279,465
Collections	(325,738)	(1,172,895)	(96,807)	-	(1,595,440)
Subtotal	(60,015)	(214,921)	(11,175)	5,970,136	5,684,025
Less: Offsetting Receipts	19,952	-	-	-	19,952
Net Outlays	$ (79,967)	$ (214,921)	$ (11,175)	$ 5,970,136	$ 5,664,073

INDEPENDENT AUDITOR'S REPORT

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report

To the Inspector General of the
Federal Communications Commission

We have audited the Consolidated Balance Sheets of the Federal Communications Commission (FCC) as of September 30, 2004 and 2003, and the related Consolidated Statements of Net Cost, Changes in Net Position, and Custodial Activity for the years then ended. These financial statements are the responsibility of the FCC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed 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. 01-02, *Audit Requirements for Federal Financial Statements,* as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall principal statements' presentation. We believe our audits provide a reasonable basis for our opinion.

FCC implemented a new cost system in fiscal year 2004 to allocate cost and revenue to the respective goals reported on the Consolidated Statement of Net Cost. The new cost system allocated revenue of $395 million based on incorrectly allocated costs of $343 million resulting in incorrect allocated revenue by goals. Although the allocated costs were subsequently corrected, the reallocation of revenue occurred after the last day of fieldwork and we were not able to apply auditing procedures to satisfy ourselves with the revenue allocations.

In our opinion, except for the effects of such adjustments to the fiscal year 2004 Consolidated Statement of Net Cost, if any, as might have been necessary had we been able to perform adequate audit procedures on the allocated revenue referred to in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the FCC as of September 30, 2004 and 2003, and its net cost, changes in net position, and custodial activity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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We were also engaged to audit the Combined Statements of Budgetary Resources and the Consolidated Statements of Financing as of September 30, 2004 and 2003. These financial statements are the responsibility of the FCC's management.

FCC management, in its management representation letter to the auditor, could not provide assurance on the accuracy and completeness of the fiscal year 2004 and 2003 Combined Statement of Budgetary Resources and the Consolidated Statement of Financing as explained in Note 24, and we were not able to apply other auditing procedures to satisfy ourselves as to the budgetary resources and reconciliation of net cost to budgetary resources. The scope of our work was not sufficient to enable us to express, and we do not express an opinion on these financial statements.

In our report dated December 8, 2003, we expressed an opinion that the fiscal year 2003 Combined Statement of Budgetary Resources and the Consolidated Statement of Financing fairly present the FCC's budgetary resources and reconciliation of net cost to budgetary resources. As described in the preceding paragraph, management could not provide current representations related to the fiscal year 2004 and 2003 statements. Therefore, we have disclaimed our opinion as presented herein, which is different from that expressed in the previous report.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 1, 2004 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. 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 and Required Supplemental Information are not a required part of the basic financial statements but are supplementary information required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. We have applied certain limited procedures to such information, which consisted principally of inquiries of FCC management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Calverton, Maryland
November 1, 2004

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Internal Control

To the Inspector General of the
Federal Communications Commission

We have audited the financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2004, and have issued our report dated November 1, 2004. In our report, we disclaimed on the Combined Statement of Budgetary Resources and Consolidated Statement of Financing due to a scope limitation, and qualified on the Consolidated Statement of Net Cost because we were not able to apply auditing procedures to satisfy ourselves with the revenue allocations. Except as described above, we conducted our audit 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. 01-02, *Audit Requirements for Federal Financial Statements*, as amended.

In planning and performing our audit, we considered FCC's internal control over financial reporting by obtaining an understanding of FCC's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed 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. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) (31 U.S.C. 3512), such as those controls relevant to ensuring efficient operations. The objective of our audit 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 material in relation to the financial statements being audited may occur and not be detected

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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 and material weaknesses.

Finally, with respect to internal control related to performance measures reported in FCC's Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin No. 01-02. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

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MATERIAL WEAKNESSES

I. Auction Transactions (Modified Repeat Condition)

A. Auction Receivables

Wireless Telecommunications Bureau (WTB) is the primary source of substantial activities on auctions and licensing that trigger accounting transactions to be acted upon by the Financial Operations Center (FOC). These activities include loan information, licensing decisions, assignments and assumptions, results of an auction, winning bid, bidding credits, upfront payments, first and second down payments, negotiations, waivers, penalties, auction rules and regulations, and many more. When auctions and licensing activities have a financial impact, the operating procedure is for WTB to notify and provide FOC with the necessary information and supporting documentation. This procedure, however, is not documented in the form of a FCC directive to ensure continuous, consistent, and proper implementation.

In fiscal year 2003, our audit identified instances where FCC did not record auction receivables originating from auction activities in accordance with orders released by the WTB. In fiscal year 2004, FCC continues to identify unrecorded receivables and has not completed the task of identification and billing auction participants for withdrawal and default penalties. FCC has determined that the net realizable value of these receivables, if recorded, would be zero based on its policy to reserve 100 percent for receivables more than one year old. In addition, FCC believes that the chance of collecting the receivable is diminished when a default occurs. Nevertheless, FCC has not completed the collection enforcement procedures for these outstanding auction receivables nor can it ensure gross receivables related to these events are recorded in the financial record of the agency.

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

Recommendations:

1. Establish a directive or written policy and procedures to ensure that all auction and licensing activities with financial impact are timely recorded.

2. Establish a database linked to or interfaced with the Revenue Accounting and Management Information System (RAMIS) to create an audit trail and record of delinquent winning bidders whose licenses were cancelled and then re-auctioned, and the amounts collected or receivable from the re-auction. Until this database becomes operational, FCC should create and maintain a comprehensive schedule that will provide this information. The resulting comprehensive schedule should be subjected to periodic quality control review and reconciliations should be performed on a routine basis.

3. Establish and implement collection enforcement procedures for outstanding receivables.

Management Comment:

Management concurs. FCC is working to close-out unbilled withdrawal and default penalties which includes reviewing each auction to identify defaulted/withdrawn licenses. To date, all such licenses are identified, and as demand letters are prepared and reviewed, corresponding receivables are created. Related procedures have been drafted and are being reviewed and finalized.

The majority of outstanding licenses await re-auction. Once re-auction occurs, penalties will be calculated and demand letters prepared, reviewed, and issued, as well as the corresponding receivable will be created, if applicable. It is expected all outstanding demand letters and resulting receivables will be processed no later than the first quarter of 2005. However, there is still a need for better coordination between related offices and the financial group to ensure all transactions are accounted for in a timely manner. A working group will be established during fiscal year 2005 to address these issues and prepare formalized policies and procedures on the auction process.

B. Spreadsheet Subsidiary Ledger System (Repeat Condition)

FCC has assessed the requirements to integrate auctions accounting and has begun programming in RAMIS. FCC management represents that the auction accounting module in RAMIS will perform daily interfaces with the general ledger system to record the auction accounting events that occur, such as license status changes.

However, implementation of the auction accounting module in RAMIS is not expected until fiscal year 2005. As a result, licensing events, such as the issuance of a *Prepared to Grant Public Notice*, were not recorded in the general ledger when the accounting event occurs; instead, these accounting events were journalized at the end of every month.

In the meantime, FCC continues to rely on various spreadsheets as the auction subsidiary ledger system. The data maintained on the spreadsheets include: gross winning bids, net winning bids, first down payment from upfront payment, additional first down payment paid, penalties, second down payment paid, outstanding balance, collections, deferred revenue, transferred to revenue, and revenue. These spreadsheets support the flow of transactions throughout the year.

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

- Substantial manual intervention, thereby increasing the risks of human errors;
- Formulas can be changed easily, affecting the flow through the rest of the spreadsheets;
- Difficulty in tracking changes made to spreadsheets, including formula changes;
- Difficulty in verifying change controls and that error correction changes were made;
- Unique transactions are difficult to incorporate;
- Difficulty in performing automatic checks and balances on the transactions in the spreadsheets;
- Delay in recording transactions in the general ledger; and
- Increase in the use of journal vouchers as a means of posting transactions to the general ledger.

Recommendations:

4. Ensure that the spreadsheet-based applications are reviewed periodically for correct formulas, changes are reviewed and authorized, and formula cells are protected.

5. Test the RAMIS auction accounting module prior to implementation to confirm the interface and data integrity and maintain documentation supporting these tests.

6. Implement and document transition and conversion controls from the current system to RAMIS in fiscal year 2005.

Management Comment:

Management concurs. The RAMIS Auctions module was tested and implemented in June 2004. Prior to it being accepted and implemented, several series of tests were performed to address the auction process from start to finish. A second phase which will incorporate receipt of files from the lockbox provider in the format necessary to liquidate the associated bills and provide for recordation to the general ledger is expected to be completed by March 2005. Until the module is fully operational, the current spreadsheet subsidiary ledger system will be maintained for no less than a minimum of six months beyond implementation to ensure postings occur properly. FCC has taken steps necessary to limit spreadsheet access to a select few people to avoid unauthorized access and limit the possibility of errors.

II. Oversight of Reporting Components (Modified Repeat Finding)

FCC has the ultimate oversight of the reporting components' financial accounting activities. In many instances, the reporting components consult with FCC or obtain FCC's written approval, concurrence, or direction before implementing critical accounting issues; wherein some of these issues may impact on program policies. During fiscal year 2004, resolution and analysis of critical accounting issues were not performed timely by FCC resulting in uncertainty as to the proper accounting of the reporting components' outstanding accounting issues. Accordingly, the reporting components have not acted upon certain significant accounting transactions while awaiting FCC written direction.

In addition, FCC did not apply or implement adequate review procedures to ensure that financial information provided for the Universal Service Fund (USF), a reporting component, are accurate, reasonable, and properly supported prior to inclusion in the consolidated financial statements. Moreover, financial information for the USF was provided and limitedly reviewed just prior to inclusion in the consolidated financial statements. Although FCC communicated with the component entities' management regarding consolidation efforts, significant material errors and adjustments relating to the USF were identified only as a result of the audit process. These errors were not identified by FCC's internal control.

Additionally, it is apparent that FCC management, particularly those who make decisions impacting financial transactions, need to clearly define and establish key areas of authority and responsibility for FCC consolidated financial reporting and officially communicate those decisions to the USF administrator. During our testing of USF activities, we observed many instances where FCC financial accountants were subjected to and quickly responded to, limited action or untimely financial actions by the USF to meet internal financial statement compilation time frames.

Furthermore, the timing of key USF decisions and the communication of significant elements, as they relate to the consolidated financial reporting of the FCC, need to be improved. In late fiscal year 2004, FCC and the USF administrator made significant changes to the operating environment, which resulted in material effects to the consolidated financial statements. Additionally, it was communicated in September 2004 by the USF administrator that an expected conversion to its new accounting system scheduled for July 2004 did not occur. This was unknown by FCC financial management since the last accounting data was reported for consolidating interim financial statements dated June 30, 2004.

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

(a) A good internal control environment requires that the agency's organizational structure clearly define key areas of authority and responsibility and establish appropriate lines of reporting. The environment is also affected by the manner of which the agency delegates authority and responsibility throughout the organization. This delegation covers authority and responsibility for operating activities, reporting relationships, and authorization protocols.

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

(c) Examples of control activities are: Reviews by management at the functional or activity level, proper execution of transactions and events, and accurate and timely recording of transactions and events.

Recommendations:

7. Formalize and document the financial working policy and processes, by clearly defining key areas of authority and responsibility for operating activities, reporting relationships and authorization protocols between FCC and its reporting components.

8. Communicate information or decisions (by FCC or USF) within a timeframe that enables the reporting components to carry out their internal control and other responsibilities timely.

Management Comment:

Management concurs. FCC will continue to communicate with the reporting components relative to their responsibilities. Although several steps were taken in fiscal year 2004 towards strengthening the oversight of the reporting components, FCC anticipates taking additional policy and program management steps to strengthen control of the Universal Service Administrative Company (USAC) and USF during fiscal year 2005, to include reevaluating the FCC's internal policies and procedures governing oversight. The internal policies and procedures governing the oversight of the other reporting components will be reviewed for possible improvements.

9. Finalize and 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.

Management Comment:

Management concurs. It is critical that more formalized policies and procedures are completed and distributed to the reporting components to ensure compilation of the financial information is reliable and timely. FCC will complete its internal compilation procedures and work with the reporting components to ensure their revised procedures meet timelines FCC sets to meet its financial reporting requirements.

III. USF Financial Accounting and Reporting Controls (Modified Repeat Condition)

The USF is a special receipt fund and a special account expenditure fund administered by USAC. USAC is responsible for maintaining adequate internal control of the fund and provides FCC with specific financial information on a monthly basis for external reporting and quarterly financial statement consolidating purposes.

The USF financial operations are maintained independently of FCC. FCC relies heavily on USAC's financial reporting controls and processes for the USF. At various times during fiscal year 2004, USAC took over all accounting and reporting functions previously performed by various contractors. We identified significant errors in USAC's interim financial statements that questioned USAC's management controls, and ultimately FCC's consolidating compilation controls, over financial accounting and reporting.

The USF Schools and Libraries support mechanism is one of four programs administered by USAC. This program provides discounts to assist schools and libraries in obtaining affordable telecommunications and Internet access from service providers. We found instances where service providers received payments without additional verification after USAC's Schools and Libraries Division (SLD) placed them on the watch list. Omitting the additional verification of invoices from service providers on the watch list could result in improper payments to those service providers. This situation occurs when a service provider's invoice is approved by SLD before the on-watch date; however, disbursements by USAC Finance occurred for providers after being placed on-watch status. There are no controls currently in place whereby USAC Finance can crosscheck authorized disbursements with the watch list prior to sending the payment files to the bank for processing.

GAO *Standards for Internal Control in the Federal Government* state, "Internal control 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."

Recommendations:

10. Perform effective quality control reviews of the financial statements prior to submission to FCC.

Management Comment:

Management concurs. With the strengthening of controls by FCC and the formalization of policies and procedures, it is expected financial statement submissions provided by the reporting components should improve. During fiscal year 2005, FCC will review reporting components' policies and procedures to ensure effective controls are in place.

11. Design and implement controls whereby USAC Finance can crosscheck authorized disbursements with the watch list prior to sending the payment files to the bank for processing.

Management Comment:

Management concurs. It is understandable the seriousness of this process and USAC feels current controls are adequate. FCC will work with USAC to ensure controls remain adequate.

IV. Reporting Components' Budgetary Accounting

FCC's reporting components' general ledger systems are not United States Standard General Ledger (USSGL) compliant. There were no budgetary entries in these general ledgers nor were transactions with budgetary impacts recorded at the transaction level.

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

On October 3, 2003, FCC released Order 03-232, which requires the administrators of the reporting components [USF and Telecommunications Relay Services Fund (TRS)] to prepare financial statements for the funds consistent with GAAP for Federal entities and to keep the funds in accordance with USSGL. This order, however, will not take effect until fiscal year 2005.

Recommendations:

12. Ensure that the reporting components properly implement GAAP for Federal entities.

13. Monitor and control any corrective action plans if the reporting components cannot or do not meet the effective date required by FCC Order 03-232.

Management Comment:

Management concurs. FCC required all of its outside entities, either through Commission order or through incorporation into a contract, to adhere to federal accounting requirements beginning in fiscal year 2005. All entities have established transition plans and are working towards full USSGL compliance in fiscal year 2005. During fiscal year 2004, monthly working sessions were held with the reporting components to discuss open issues relative to implementation. Sessions will continue through fiscal year 2005 to ensure implementation.

V. Information Technology (IT) (Modified Repeat Condition)

The reportable conditions below, when evaluated together, make information technology a material weakness.

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

Some of the key components of an entity-wide security program are the performance of risk assessments and the development of a comprehensive security plan. Every organization needs a set of management procedures for identifying and assessing risks, and deciding what policies and controls are needed to achieve effective security controls.

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

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

- The FCC Directive 1131.1, *Information Security Manual*, has expired. FCC has not issued a new directive to replace the expired information security directive. FCC's IT environment has existed for an extended period of time without such a directive.
- FCC has not completed the implementation of its entity-wide security program plan. Also, FCC has not certified and accredited its entity-wide security program plan.
- FCC did not complete risk assessments for two of its 19 major applications (Internal Bureau Filling System, and Universal License System) and for one of its critical general support systems until the last week of September 2004.

- FCC does not have adequate audit trails facility utilization and review. The Computer Security Officer has not developed and distributed a Commission-wide policy to make mandatory the use of audit trails utilization and review.

- FCC has not conducted security awareness training for its loan servicing contractor employees who are part of the loan processing system.

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

Recommendations:

14. Issue a new directive to replace the expired Directive 1131.1, *Information Security Manual*.

Management Comment:

Management concurs. FCC drafted a replacement to Directive 1131.1. Upon completion of review, the directive will be available for dissemination. Distribution is expected in early fiscal year 2005.

15. Complete the implementation, certification and accreditation of an FCC-wide security plan as prescribed by OMB Circular No. A-130.

Management Comment:

Management concurs. Activities are ongoing to complete the entity-wide security plan. Completion of the entity-wide plan is planned for December 2004.

16. Implement and develop a Commission-wide policy to make mandatory the use of audit trails utilization and review.

Management Comment:

Management concurs. Activities are ongoing to complete the central audit management system. Completion of the entity-wide plan is scheduled for December 2004.

17. Conduct security awareness training for the contractor loan servicing employees who are part of the loan processing system.

Management Comment:

Management concurs. Though the FCC has no management control of the loan service provider staff, FCC agrees that security awareness training should be provided to its staff. The Computer Security Officer will provide FCC training guides to loan servicer management for implementing training standards similar to or above the standards set forth in FCC Instruction 1479.2, and request evidence indicating that training has been developed and provided. The Computer Security Officer will ensure FCC users of the loan processing system receive required security awareness training as required by FCC Instruction 1479.2.

18. Make a determination on whether the contractor loan servicing application should be a major application. Once that determination is made, develop security plans for this system and certify and accredit the application.

Management Comment:

Management concurs. The Computer Security Officer assists FCC system owners and management in classifying major applications based on OMB policy and other standards. The loan servicing system became a system of record in fiscal year 2004 and is scheduled for review of its OMB Circular No. A-130 status during fiscal year 2005.

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

FCC developed significant elements of a full continuity of operations plan (COOP); however, there are still some issues to be resolved such as contingency plans for bureaus or offices major applications and contingency plans for field offices and reporting components. Also, FCC has not completed the integration of the individual plans of its data centers, networks, and telecommunications facilities as part the COOP.

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

The Chief Information Officer (CIO) and staff are in the process of developing a COOP to support the recovery of IT systems if an incident disrupts services. In April 2003, FCC developed its business impact analysis and alternate processing options analysis as part of its COOP. FCC developed its disaster recovery plan (DRP) as part of the COOP. Although the DRP was successfully activated during Forward Challenge in 2004, the DRP only establishes procedures to recover the FCC headquarters IT infrastructure and automated services functionality following a disruption. It does not include field offices and reporting components.

Recommendations:

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

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

Management Comment:

Management concurs. The FCC COOP and DRP have been completed and were successfully tested in the May 2004 Forward Challenge Exercise. FCC has completed its Business Impact Analysis and the Alternate Processing Options Analysis, which were used as a basis for the development of the DRP. As part of FCC's effort to enhance the DRP capabilities and to reduce the recovery time of FCC systems, FCC has implemented a phased approach in the development and incorporation of FCC's applications inclusion into the IT DRP and Bureau/Office specific Business Continuity Plans. FCC has increased its efforts to enhance the FCC's DRP capabilities in order to prepare for the fiscal year 2005 interagency COOP exercise. In fiscal year 2004, FCC successfully participated in the COOP tests for FFS and PPS with its business partners. In addition, the Information Technology Center (ITC) will work to ensure that FOC service providers create independent COOPs and that those plans are integrated into the FCC's DRP and COOP processes, and are tested as part of the FCC yearly testing.

C. Disaster Recovery Plan for USF (Modified Repeat Condition)

As the administrator of the USF, USAC is responsible for ensuring the security of the data used to maintain the USF. USAC currently does not have a DRP for USF. Accordingly, no disaster recovery tests have been performed. FCC Order 03-232 mandated USAC to have a DRP and to complete testing of the DRP by October 2004. USAC is scheduled to complete the DRP by October 2004.

OMB No. A-130, Appendix III, and Federal Information Processing Standards Publication (FIPS PUB) 87, *Guidelines for ADP Contingency Planning,* require federal agencies to develop and periodically test disaster recovery plans. These standards also require continuous updates to the disaster recovery plan and tests in case of a disaster or business interruption.

Recommendation:

21. Develop and test a disaster recovery plan for the USF in coordination with or with the oversight of the FCC Computer Security Officer (CSO) to ensure compliance with FCC Order 03-232, OMB Circular No. A-130 and FIPS PUB 87.

Management Comment:

Management concurs. The USAC disaster recovery plan for four of the programs of the USF will be completed by October 2004. An annual test will be completed prior to the end of the first quarter 2005 and documentation noting that on the project plan was provided. In addition, the FCC Computer Security Officer will review all disaster recovery plans of the USF, TRS and North American Numbering Plan (NANP).

D. Security Policies and Procedures for USF

USAC has not developed security policies and procedures in compliance with OMB Circular A-130, Appendix III. This policy should detail the actions that employees must take in order to ensure sensitive data is protected within USAC systems.

Recommendations:

22. Develop and implement security policies and procedures that details controls to protect data on the USAC network. These policies and procedures should be coordinated with the FCC's CSO to insure that they meet FCC standards.

23. Make USAC computer security policy available to all employees and update the policy regularly to reflect new environmental factors that can potentially affect USF data.

Management Comment:

Management concurs. USAC has performed risk assessments on and developed security plans for each USF major application. Additionally, USAC developed a general support system security plan. USAC is implementing changes to these applications and systems based upon the security plans. Certification and accreditation are performed to ensure compliance with the plans. In addition, USAC developed internal controls to protect entity sensitive data within the general security plan and the security plans for each major application.

VI. Cost Allocation Logic

FCC implemented the Budget Execution and Management System (BEAMS) in fiscal year 2004 to allocate cost and revenue to the respective goals reported on the Consolidated Statement of Net Cost (SNC). We identified during our audit that the new cost system's allocation logic for costs recorded in USSGL 6330 and USSGL 6730 amounting to \$343 million and \$3 million respectively were incorrect. The amounts in USSGL 6330 should be a direct cost and in USSGL 6730 should be unassigned cost instead of being allocated to various goals. As a result, because BEAMS was programmed to allocate revenue on the basis of each goal's final cost, which included the incorrect allocated cost, the allocated revenue reported on the SNC was incorrect. The total revenue incorrectly allocated was \$395 million. Although the allocated costs were subsequently corrected, the reallocation of revenue occurred after the last day of our fieldwork and we were not able to apply auditing procedures to satisfy ourselves with the revenue allocations.

GAO *Standards for Internal Control in the Federal Government* states that as it relates to application controls, systems should be designed to help ensure completeness, accuracy, and the validity of all transactions during the application processing. Control should be installed at application's interfaces with other systems to ensure that all inputs are received and are valid and outputs are correct and properly distributed. Also, Joint Financial Management Improvement Program (JFMIP) functional requirements require that cost assignment rules maintenance process support the costing methodologies, cost objectives, and resources chosen by the agency for its use.

Recommendation:

24. Review, test and correct existing BEAMS allocation logic.

Management Comment:

Management concurs. Management concurs the original allocation methodology was not accurate for the interim and yearend SNC. During the year, transactions to these accounts were immaterial and did not present an unusual allocation. However, in the month of September 2004, large transactions for both accounts 6330 and 6730 were booked. In analyzing the yearend reports, the allocations were highlighted and identified as entries which should be allocated differently than programmed. An adjustment to properly allocate the costs in the SNC as on-top adjustments prior to submitting the draft yearend statements for audit was presented. No adjustments were made to the revenue allocations to account for the cost adjustments in the yearend statements. In the meantime, the BEAMS allocation process was modified to allocate both accounts correctly. Due to the length of time to regenerate the cost module, management determined it would be beneficial to only rerun the module once to include the revised allocation process and include any audit adjustments provided by the auditors. When the auditors demanded that FCC rerun the program in order to view a corrected SNC rather than wait for the audit adjustments, the FCC ran the cost module. The revised yearend SNC reports were rerun reflecting the revised allocation process and submitted to the auditors within the agreed upon date which was after the end of fieldwork. The fiscal year 2004 SNC presented to the auditors and included in the PAR reflects the modified allocation methodology.

REPORTABLE CONDITIONS

VII. Financial Reporting (Modified Repeat Condition)

FCC's financial reporting process continues to improve when compared with prior years. The most significant changes that occurred during fiscal year 2004 were the implementation of two new systems, (1) the contractor loan servicing system, which now serves as the subsidiary system for loans, and (2) the BEAMS. On a daily basis, both systems interface with the FCC's general ledger, the Federal Financial System (FFS). However, some conditions continue to exist, which are reported below.

A. Integrated Financial Management Systems (Repeat Condition)

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

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

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

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

- **USF Standard General Ledger (Modified Repeat Condition)**
  USAC runs an old general ledger (GL) system parallel to its replacement GL system. The old GL system was not compliant with the Federal Financial Management Improvement Act (FFMIA) standards. It did not interface with the accounts receivable sub-ledger, accounts payable sub-ledger, or cash journal. All disbursement and collection transactions were provided via excel spreadsheets for data entry into the USF GL.

  The old GL application was scheduled for replacement as of July 1, 2004. However, USAC encountered problems with the processing time for loading files to new GL. As a result, USAC has rescheduled the implementation date for the new system. USAC anticipates implementation of the new system by the close of September 2004.

Recommendations:

25. Assess the degree and adequacy of the planned or actual integration for the overall financial management systems. These integrations should include all receivable transactions to be recorded in RAMIS, the fee billing system, the auction subsidiary systems, and various stand-alone systems such as the property management system, databases, spreadsheets and reporting components' financial reporting.

Management Comment:

Management concurs. Continuing to work towards a fully integrated financial management system, FCC substantially integrated most of the financial sub-systems as of fiscal year end 2004. During fiscal year 2004, there were two modules planned for implementation in RAMIS. The Auctions module was implemented and placed into production and the International Telecommunications Settlement module was implemented during third and fourth quarter fiscal year 2004, respectively. Enhancements to both modules are scheduled during fiscal year 2005. Additionally, FCC is performing requirements analysis for implementing a new financial accounting system with plans to integrate all financial systems for all components relative to the FCC.

26. Review the JFMIP requirements for direct loan systems and ensure that contractor loan-servicing database is in compliance with those requirements.

Management Comment:

Management concurs. The system utilized to maintain and report on the loan program of the FCC is fully operational with the requirements requested in the selection of the provider. Although the system is capable of some specific database requirements of JMFIP, the FCC has maintained authority for certain processes and has not authorized the loan service provider to implement those requirements, and those will continue to remain at the FCC. FCC will review the system to see what processes can be fully utilized to ensure compliance with JFMIP.

27. Ensure USF general ledger system compliance with FFMIA and USSGL.

Management Comment:

Management concurs. FCC required all of its outside entities, either through Commission order or through incorporation into a contract, to adhere to Federal accounting requirements beginning in fiscal year 2005. FCC worked throughout fiscal year 2004 with its reporting components providing guidance and reviewing transition plans surrounding the conversion to full Federal accounting effective fiscal year 2005.

FCC will continue to work with the reporting components to ensure compliance with GAAP for Federal entities.

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

In fiscal year 2004, FCC continued to use FFS system setup and posting model definitions that were not completely updated. While the incorrect posting models were now limited to auction and ITS transactions, the outdated definitions continued to require corrections to the transaction postings through monthly journal vouchers. The incorrect posting model definitions resulted in non-compliance with the transaction posting models consistent with USSGL guidance and policies when recording and classifying some transactions. This system deficiency may continue to impair the quality and reliability of the auction financial management information.

Recommendation:

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

Management Comment:

Management concurs. FCC will continue to review its existing posting models for improvements and efficiency.

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.

Our audit identified significant differences between third quarter FACTS II account balances and the balances reported on the FCC's third quarter financial statements.

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

Recommendation:

29. Ensure timely communications and reconciliations between all groups with financial reporting responsibilities.

Management Comment:

Management concurs. FCC will continue to maintain coordination and communication between all the groups responsible for financial reporting.

VIII. Cost Accounting (Modified Repeat Condition)

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

Statement of Federal Financial Accounting Standards (SFFAS) No. 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government,* requires reporting components to perform a minimum level of cost accounting and provide basic information necessary to accomplish the many objectives associated with planning, decision-making, and reporting. This minimum level includes, among others, measuring full cost of outputs, providing information for performance measurement, and providing useful information, and accommodating any or management's special cost information needs that may arise due to unusual or special situations or circumstances. BEAMS, as presently implemented, does not provide the minimum level identified above.

Recommendation:

30. Ensure that the minimum level required in a cost accounting system by SFFAS No. 4 is incorporated in BEAMS.

Management Comment:

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

B. Matching Revenue to Cost (Repeat Condition)

FCC continued to allocate earned revenues in the same proportion as allocated costs instead of matching related revenues to costs. Initially, BEAMS was configured to allocate revenue based on cost by goals. However, implementation of BEAMS allocation on the interim statement of net cost was later found to be unreasonable.

Accordingly, the use of BEAMS configuration was abandoned this year. 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:

31. 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 the activities that produce the earned revenue.

Management Comment:

Management concurs. FCC is aware of the requirement to assign revenues to related costs and will address this issue as a possible enhancement to the new cost accounting system.

IX. Payroll Activities (Modified Repeat Condition)

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

- Leave error reports received from the National Finance Center (NFC), showing differences between NFC's leave record for each employee and FCC's leave records were not reconciled. Our audit disclosed significant differences for all categories of leave balance such as annual leave, sick leave, compensatory time, and credit hour categories.

- Other deficiencies noted included improperly completed timesheets and reconciliations not being performed on corrected data sent from FFS to the FCC's desktop payroll reconciliation system.

Recommendations:

32. Perform a periodic reconciliation of all the leave categories from the two systems, NFC and FCC records.

Management Comment:

Management concurs. FCC is aware of the variations between the leave balances on the Statement of Earnings and Leave and timecards. Periodic reconciliations are being performed between the systems. In fact, audits have been conducted on over 1200 employees to ensure that the leave balances on the system matches the timecards. Reports are run bi-weekly and are reviewed for variances. FCC payroll staff works with timekeepers, employees, and supervisors to immediately correct any errors that occur after the audits have been completed.

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

Management Comment:

Management concurs. Reconciliation is performed on any errors generated and it is provided for correction. The timekeeper processes a corrected timesheet and the error is corrected through the appropriate system. FCC will review its existing procedures to ensure a follow-up process is included to ensure corrections are made timely.

X. Debt Collection Improvement Act (Modified Repeat Condition)

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

Our review of the Treasury Report on Receivables as of June 30, 2004, disclosed that no amounts of administrative receivables had been referred to Treasury for offset, and only $1.7 million of eligible administrative receivables out of a total of $51.5 million had been referred for cross-servicing. FCC's condition of limited referrals for cross servicing has been noted in prior year audit reports and continues to exist.

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

Recommendations:

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

Management Comment:

Management concurs. FCC instituted procedures that require more consistent reviews of documents in order to determine which debts are eligible for referral when they reach more than 180 days. Additionally, FCC performs an audit of each delinquent folder to determine if all supporting documents are included and interest and administrative fees are in compliance with the Department of the Treasury requirements prior to referral. In conjunction with the Department of Treasury, FCC is working to establish a system that will enable it to electronically refer delinquent debts. An expectation is that this system will accelerate the process significantly.

35. 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.

Management Comment:

Management concurs. Automation of this process is currently an open item for implementation. The FCC revenue and accounting system does have the functionality in the software to automatically assess interest, penalties, and administrative fees; however, during the initial development, this business requirement was not implemented. The plan is to implement this requirement in the first quarter of fiscal year 2005.

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

A. Review of the RAMIS Application Controls.

FCC Office of Inspector General (OIG) engaged a firm to review the RAMIS application controls in fiscal year 2003. The report resulting from the RAMIS review identified several weaknesses in internal EDP controls that collectively are considered a reportable condition. The weaknesses are explained in more detail in a separate report dated November 24, 2003, and titled, *Report on Audit of the Revenue Accounting and Management Information System (RAMIS)* released by the FCC OIG. During fiscal year 2004, FCC closed 9 out of 22 the weaknesses identified in the report.

Recommendation:

36. Complete the implementation of recommendations made in the OIG report on RAMIS.

Management Comment:

Management concurs. FCC Finance Office and ITC initiated efforts to resolve the issues. Efforts are ongoing to complete a majority of the issues with anticipated completion in fiscal year 2005. Of the items identified, areas requiring network infrastructure enhancements or additional resources such as the inclusion of an intrusion detection system, implementation of data encryption, development of the RAMIS business continuity plan, and inclusion of audit trail utilization and reviews will be completed once resources and funding become available.

B. Transmission of Sensitive Data

FCC's loan-servicer security policy requires that information classified as *sensitive* to be evaluated by its customer (i.e. FCC) to determine whether encryption and digital signature or message are required during transmission and storage. Although data is considered sensitive, FCC has not made the determination whether to encrypt the transmission and storage of loan-servicing information. Consequently, loan-servicing information is transmitted in plain text, unencrypted. Without encryption, the transmission of sensitive information can be disclosed, manipulated or repudiated.

Recommendation:

37. Require all of FCC contractors encrypt transmission of sensitive financial and financial related information both to and from FCC.

Management Comment:

Management concurs. FCC determined the information is sensitive and it is developing an encryption process for all loan data and information to be implemented in fiscal year 2005.

C. IT Security Training and Education (Modified Repeat Condition)

For our fiscal year 2003 audit of FCC, we were provided with the *Rules of Behavior Tracking Sheet*. This sheet provides the names of FCC employees (during a given time frame) and whether the employee has signed the A-201, *Rules of Behavior Form*, which is required prior to allowing new IT user access rights and before employees are given security training. Our review of this document in fiscal year 2004 disclosed that 44% or more of the individuals had not signed the form.

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

Recommendations:

38. Require that upon an employee's acceptance of an FCC position, he or she should receive a packet with training courses and dates, and the FCC's *Rules of Behavior* for his or her review.

39. Ensure and require that on the first day of work, each employee should have to turn in the *Rules of Behavior* form to his/her supervisor as a term of employment.

40. Require each employee to accomplish a certain amount of training per year to continue in his or her job role.

Management Comment:

Management concurs. The FCC Computer Security Officer currently provides the FCC *Rules of Behavior* during new employee computer security orientation briefings. The Computer Security Officer initiated efforts to enhance the computer security training program by purchasing and implementing computer based training modules for FCC users and key staff that will be available in the first quarter of fiscal year 2005.

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

As in fiscal year 2003, FCC did not provide the *Personnel and Security Suitability Manual* for our verification of the alignment of employees' duties and position risk designation. We were informed that the manual has not been approved, therefore, could not be provided to us for our review. Also, FCC has not prioritized individual position reviews and has not made the necessary funds available to perform the task.

Recommendations:

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

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

Management Comment:

Management concurs. FCC drafted a *Personnel Security/Suitability Manual*. Upon completion of its review, the manual will be available for dissemination. Expected distribution is early in fiscal year 2005.

E. Access to Equipment Authorization System and Experimental Licensing System

The Office of Engineering and Technology (OET) does not follow a formal request process for granting access to internal users of the Equipment Authorization system (EAS) and/or Experimental Licensing System (ELS). FCC's Computer Security Program Directive 1479.2 states that the computer resource center staff and the CSO establish procedures, which in conjunction with appropriate request forms (such as form A-202) that will allow personnel to access FCC computer system resources.

OET has not implemented a formal process to ensure compliance with existing FCC procedures and requirements on the use of forms for requesting a user's system access for the relatively small community of internal EAS and ELS users. Not having a formal request process in place to request, approve, and grant access to a system creates the risk that a user could be granted a level of access that is too high for their assigned job responsibilities. Within the context of EAS and/or ELS, this could lead to improperly granting equipment authorization or experimental licenses, respectively, as well as the ability to alter data on vendors and applicants.

Recommendation:

43. FCC should develop and implement a formal request process for granting access to EAS and ELS. This process should be similar to the form A-202 process used by

other system owners to grant access. The form should include the specific areas of the system that a new user of EAS and/or ELS would require access.

Management Comment:

Management concurs. Formal procedures for ensuring appropriate approval and tracking of logins into the systems are in the process of being developed. The procedure will be implemented upon approval by the Computer Security Officer. It is anticipated that this will be completed in fiscal year 2005.

F. USF Password Controls (Modified Repeat Condition)

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

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

FIPS PUBS 112, *Password Usage,* identifies fundamental EDP management functions pertaining to passwords and specifies some user actions required to satisfy these functions. In addition, it specifies several technical features, which should be implemented in an EDP system in order to support a password system. These provisions have not been implemented as noted above.

Recommendation:

44. Strengthen password controls to comply with FIPS PUBS 112 *Password Usage.*

Management Comment:

Management concurs. Password controls were modified during fiscal year 2004.

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

USAC has not provided documentation of the certifications and accreditations for its major applications and general support system. USAC recently provided draft version of a combined risk assessment for its new general ledger application; the accounting, billing, collections, and disbursement application; and the disbursement aggregation system. The security plans, risk assessments, and certifications as required by FCC Order 03-232, are to be finalized on October 1, 2004.

Recommendation:

45. Complete and implement security plans, risk assessments, and certification and accreditations for each of USF's major applications and general support system.

Management Comment:

Management concurs. During the first quarter 2005, USAC plans to complete a Government requirements gap analysis, develop a risk assessment and security plan for each of its major applications and network, and remediate manageable discrepancies between the plans and the systems state.

H. OMB Circular Nos. A-127 and A-130 Reviews (Repeat Condition)

FCC has identified its major financial applications and general support systems, and established a timetable for meeting the requirements of OMB Circular No. A-127 and A-130 review of these applications. Although FCC had begun conducting some OMB Circular Nos. A-127 and A-130 reviews in fiscal year 2002, not all identified systems have been reviewed. Until these reviews are performed and completed, FCC cannot determine compliance with these circulars to include in its annual FMFIA report and to ensure substantial compliance with the Federal Financial Management Improvement Act of 1996.

Recommendations:

46. Institute a program for conducting periodic reviews in accordance with OMB Circular Nos. A-127 and A-130 and perform the reviews timely.

47. Establish policy and procedures in a proper manner for conducting periodic reviews of the reporting components in accordance with OMB Circular Nos. A-127 and A-130.

48. Institute a program for conducting periodic reviews to include USF and other reporting components in accordance with OMB Circular Nos. A-127 and A-130.

Management Comment:

Management concurs. During fiscal year 2005, a joint project will be performed within FCC to formalize the performance of OMB Circular Nos. A-127 and A-130 reviews. Procedures will be written and finalized outlining the program, review requirements and responsible parties.

XII. Collateral for Deposits Held Outside of Treasury

The Treasury Financial Manual (TFM) 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 Federal Deposit Insurance Corporation."

Through our confirmation of deposits and investments held outside of Treasury with the financial institutions, we were notified that there were 2 days where funds were deposited overnight in a money market account without collateral. For those 2 days, the amounts invested were $81.5 million and $295 million respectively.

The contracts with financial institutions where USF funds are deposited do not include the requirement for collateral arrangements when funds are temporarily placed on deposit account.

Recommendation:

49. Amend the contracts with financial institutions to include a requirement for collateral when funds are temporarily placed on deposit account.

Management Comment:

Management concurs. In coordination with the FCC, the Department of the Treasury, and the Federal Reserve Bank of St. Louis, a collateral account is being established for the USF. The established account will be is in accordance with 31 CFR 202, which requires agencies to secure public money under its control, in accordance with "Securing Government Deposits in Federal Agency Accounts". The account is expected to be finalized in November 2004.

XIII. Federal Managers' Financial Integrity Act (31 U.S.C. 3512) Compliance and Reporting

As required by OMB Bulletin No. 01-02, we compared the material weaknesses and material non-conformances in the FMFIA report included in FCC's fiscal year 2004 Performance and Accountability Report (PAR) to our report on internal control dated November 1, 2004. There was one material weakness relating to BEAMS Allocation Logic that was not disclosed in the FMFIA report.

We do not believe that failure to report this material weakness constitutes a separate reportable condition or material weakness, because different criteria are used in determining material weaknesses for both reports, and management has reported some of the material weaknesses. However, FCC did not take timely and effective actions to correct material internal control deficiencies identified in prior years' *Independent*

Auditor's Report on Internal Control. Also, many of the original target correction dates for the deficiencies reported in the FMFIA report were not met and had to be revised. OMB Circular No. A-123, *Management Accountability and Control* (Revised June 21, 1995), Section IV, states, "…management has a responsibility to complete action, in a timely manner, on audit recommendations on which agreement with the IG has been reached."

Management Comment:

Management submitted its PAR on October 20, 2004, with updates on October 26, 2004, which included updates to material weaknesses and reportable conditions identified in prior year FMFIA reports. The draft audit report provided on November 8, 2004, was the first time management was notified there was a new material weakness. There would have been no ability on the part of the FCC to include this newly identified material weakness in the FMFIA when its deadline for the FMFIA input was the date the first draft of the PAR was due. This new material weakness will be incorporated in next year's FMFIA input.

STATUS OF PRIOR YEAR COMMENTS

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

- **Condition – Loan Subsidiary Ledger System.** Prior to fiscal year 2004, FCC maintained its loan portfolio in numerous manually prepared, elaborate and complex spreadsheets. The applications applied in the loan subsidiary system were implemented to their maximum potential use, thereby creating certain problems in addition to the inherent risks and limitations in spreadsheet-based applications. Effective October 1, 2003, a loan servicing company operated the system of record, servicing FCC's loan portfolio and maintaining the loan portfolio in a database that was created to perform all of the necessary billing, collecting, and record keeping functions. Therefore, we have excluded this reportable condition in fiscal year 2004.

- **Condition – Cost Accounting System.** In prior years, FCC downloaded program costs from FFS into a spreadsheet application because it lacked an effective cost accounting system. FCC used the spreadsheets and implemented cost finding techniques to allocate costs to FCC programs. The use of these complex allocation spreadsheets increased the risk of errors not being detected timely in the normal course of operation. FCC implemented BEAMS in fiscal year 2004, which replaced the spreadsheet based cost allocation system used in prior years. Therefore, we have excluded this reportable condition in fiscal year 2004.

- **Condition – RAMIS Application and Processes.** In fiscal year 2003, our audit disclosed instances of incorrect accounts receivable information in the RAMIS subsidiary ledger. This information included dates in RAMIS differing from dates on the supporting documentation, receivables that were recorded in the wrong fund, the amount recorded in RAMIS differed from the supporting documentation, and incorrect fines and forfeiture classifications.

In fiscal year 2004, we identified some non-financial information exceptions in RAMIS, which are reported separately in the management letter.

- **Condition – Collections in RAMIS.** In fiscal year 2003, our audit identified certain weaknesses related to the process of recording collections in RAMIS and the nightly interface with FFS. Our audit disclosed only a few instances where collections were not posted timely to the correct funds in RAMIS. This condition was reported in the management letter.

****

In addition to the material weaknesses and reportable conditions described above, we noted certain matters involving internal control and its operation that we reported to the management of FCC in a separate letter dated November 1, 2004.

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

Clifton Gunderson LLP

Calverton, Maryland
November 1, 2004

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

Clifton Gunderson LLP
Certified Public Accountants & Consultants

Independent Auditor's Report on Compliance with Laws and Regulations

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, 2004, and have issued our report thereon dated November 1, 2004. In our report, we disclaimed on the Combined Statement of Budgetary Resources and Consolidated Statement of Financing due to a scope limitation, and qualified on the Consolidated Statement of Net Cost because we were not able to apply auditing procedures to satisfy ourselves with the revenue allocations. Except as discussed above, we conducted our audit 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. 01-02, *Audit Requirements for Federal Financial Statements,* as amended.

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

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

Chief Financial Officers Act of 1990 (CFO Act)

The Government Management Reform Act of 1994 (GMRA) amended the requirements of the CFO Act by requiring, among other things, the preparation and audit of organization-wide financial statements of 24 executive departments and agencies. The Accountability of Tax Dollars Act of 2002 extends the requirements of the GMRA to certain other agencies including FCC.

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

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

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

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

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

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

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

- Direction, policy guidance memorandum for FCC's financial statement preparation and oversight of the reporting components' financial operations are inadequate. A memorandum for the preparation of fiscal year 2004 financial statements was not issued by the CFO.

Antideficiency Act

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

The Antideficiency Act requires that OMB apportion the appropriations. In fiscal year 2004, OMB issued an apportionment for the USF for the first time. OMB's decision to apportion the USF was explained to FCC as a correction of a previous error, as OMB believed that the USF should have been apportioned starting with the first time it appeared in the President's Budget to

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

Subsequent to the end of fiscal year 2004, FCC management informed the Office of Inspector General of an apparent violation of the Antideficiency Act. To date, FCC has not informed the President of the United States, through the OMB Director, and Congress, as required by the Antideficiency Act. FCC management states that once it can determine the amount involved, if any, in the violation and the date on which the violation occurred, it will report as required.

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

In fiscal year 2004, as in the prior year, FCC's Narrowband licenses did not have installment payment plan notes stating the loan amounts and terms. In addition, security agreements were not issued by FCC for this block of loans. These loans, with outstanding balances of $78 million as of May 31, 2004, are direct loans accounted for under the Federal Credit Reform Act of 1990. Sec. 502 of the Federal Credit Reform Act defines "direct loan" as a disbursement of funds by the Government to a non-Federal borrower under a contract that requires repayment of such funds with or without interest.

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

Debt Collection Improvement Act of 1996

FCC's Treasury Report on Receivables for administrative receivables submitted to the Department of the Treasury as of June 30, 2004, disclosed that no amounts have been referred for off-set, and only $1.7 million of the $51.5 million of eligible receivables was referred to the Department of the Treasury for cross-servicing. See IC Report, Section X, for a more detailed explanation.

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

Federal Financial Management Improvement Act of 1996 (FFMIA)

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

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

Federal Financial Management Systems

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

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

- Agency-wide Financial Information Classification Structure – As explained in detail in the IC Report, Section VII.B, FCC's and its reporting components' core financial systems have not been fully consistent with the USSGL. Although a new posting model was designed for auctions revenue postings and was scheduled for implementation for fiscal year 2004, the implementation schedule was delayed to fiscal year 2005. Also, the International Telecommunications Settlements (ITS) posting model is to be designed and implemented in fiscal year 2005. Once the auctions and ITS transactions have been fully transitioned to the Revenue Accounting and Management Information System, these posting model changes are expected to allow FCC to eliminate manual adjustments currently made to correct posting model deficiencies.

- Security – In fiscal year 2004, as in prior years, we identified several weaknesses, which collectively are considered a material weakness, and are described in more detail in our IC Report, Section V. The weaknesses include noncompliance with OMB Circular No. A-130, *Management of Federal Information Resources,* requirement for a comprehensive security plan, and lack of a fully developed and tested contingency plan. FCC has not completed, implemented, certified, and accredited its entity-wide security program plan. The initial stage of this process, which includes a risk assessment as part of an all-inclusive security test and evaluation, was not completed for two major applications, and one general support system until the last week of September 2004. In addition, there was a lack of an agency-wide contingency plan to address continuity of operations in the event of a disaster.

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

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

Federal Accounting Standards

Our audit disclosed the following instances of non-compliance with Federal Accounting Standards:

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

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

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

U.S. Standard General Ledger at the Transaction Level

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

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

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

Management Comment:

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

****

We also noted certain immaterial instances of noncompliance that we have reported to management of FCC in a separate letter dated November 1, 2004.

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, 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, 2004

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OFFICE OF INSPECTOR GENERAL'S SUMMARY OF SERIOUS MANAGEMENT CHALLENGES

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: October 15, 2004

TO: Chairman
Managing Director

FROM: Inspector General

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

In November 2000, the President signed the Reports Consolidation Act of 2000 (Public Law No. 106-531), which requires Inspectors General to provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This document responds to the requirements and provides the fiscal year 2004 submission to include in the Fiscal Year 2004 FCC Performance and Accountability Report.

We identified six significant management issues facing FCC for fiscal year 2004.

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

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

The Reports Consolidation Act of 2000 permits agency comment to the Inspector General statements. To this effect, we request all comments or responses be received by my office by November 14, 2004.

H Walker Feaster III

H. Walker Feaster, III
Inspector General

Attachment

Cc: Mark Reger, Chief Financial Officer

OIG Management Challenges
9/30/04

Reporting Component Investigations and Fraud

Fraud is an inherent risk in the Universal Service Fund (USF) core business process: collection, certification, and disbursement of funds for advanced telecommunications services. As of fiscal year end 2004, 55 investigations have been initiated. Of those investigations, 37 are on-going and 18 are closed. Investigations have led to indictments as well as subsequent sentencing relating to fraudulent actions. To date, five indicted individuals and one indicted corporation have accepted plea agreements in four separate investigations. Additionally, five individuals have been indicted in another case that is currently scheduled for trial. FCC has taken action to address fraud in the USF business process; however, additional efforts are needed. FCC and the USF Administrator, in conjunction with the Office of Inspector General and the Department of Justice, developed processes for suspected fraudulent activity monitoring, investigation, and referral.

In addition to law enforcement activities, audits conducted of the E-Rate program disclosed significant potential recoveries. Currently, these recoveries are in excess of $20 million. FCC has taken action to improve oversight of the E-Rate program; however, additional efforts are needed. Controls over management oversight and accountability for receipts of USF funds by program beneficiaries have been materially weak because of inadequate management controls, lack of a sufficient independent audit program to deter future fraudulent activity, and weaknesses in the structure of the program.

Additionally, the Office of Inspector General is aware of an ongoing investigation of the Telecommunications Relay Service (TRS) Fund. FCC informed the Office of Inspector General there is the possibility of settlement for monetary recovery of disbursed funds. The TRS 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.

Financial Reporting

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

FCC has made progress in correcting financial management weaknesses given the resources available. Recent improvements in its loan receivable and cost accounting processes addressed this challenge. Additionally in fiscal year 2004, FCC fully outsourced its loan portfolio operations and instituted a new cost accounting system which greatly improved its costing for performance. Despite these achievements, FCC

OIG Management Challenges
9/30/04

needs to take additional steps to ensure proper financial management reporting. Specifically, it has not made the major changes needed to address a long-standing weakness in financial reporting. Significant elements of this weakness include the need for:

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

Reporting Components

Throughout its history, FCC created subsidiary organizations and administrative components, subject to various levels of FCC oversight, to conduct Commission business and meet the agency mission. Fundamentally, these organizations were created without a complete assessment or determination of how component functions or responsibilities would comply with Federal laws and regulations, policy, or concepts. This issue exists to date and creates considerable confusion.

In fiscal year 2003, FCC adopted Commission Order FCC 03-232, the first of what was expected to be a series of Orders defining the applicability of certain laws and regulations to these organizations and components. Although the Order defined applicability of certain requirements for two of three current financial reporting components, it did not address the remaining component. Additionally, the scope of the new requirements was fairly ambiguous as to which relevant provisions of Federal financial management and reporting statutes and laws it applied. To date, FCC has not issued similar Orders addressing this issue or clarified the relevancy of the other existing provisions. Thus, the applicability of key provisions of Federal financial management and reporting statutes and laws, as well as some in their entirety, remains undecided.

During fiscal year 2004, the reporting components addressed by the aforementioned Order progressed toward meeting the October 1, 2004 effective date. Near fiscal year end 2004, component management informed FCC it would not meet the implementation date for key elements. To the best of our knowledge, no temporary, interim, or corrective actions to mitigate this challenge have been provided to or by FCC management.

2

OIG Management Challenges
9/30/04

Furthermore, bureau and offices which facilitate reporting component oversight are slow to address known problem areas and fundamental questions. This observation is not limited to those directly responsible for component oversight, but to other relative areas including: legal, planning, financial management, information technology, and general management. Identified issues and problem areas languish for multiple fiscal years with limited or no resolution. Although proposed solutions are discussed, many get diverted to address critical problems. This fact was highly evident in late fiscal year 2004 as FCC responded, and continues to respond, in what could be categorized as a reactive versus a proactive mode of oversight.

Information Technology and Information Systems Security

As technology advances and our reliance on technology increases, the need for a strong information technology infrastructure becomes more important. FCC's operations have become increasingly more reliant on automated systems and further integration of FCC data and services with external users via the internet is escalating. Along with explosive growth in computer connectivity comes the ability to disrupt or sabotage critical operations, read or copy sensitive data, and tamper with critical processes.

FCC's information technology control environment and systems security need to be enhanced. FCC is noncompliant with a number of Federal statutes and policies. Commission systems have been susceptible to malicious attacks via viruses and worms, and unauthorized access. Inadequacies and inconsistencies exist in the mainframe and network access request process and efforts to develop and test FCC's contingency plans have been slow. Additionally, FCC lacks a viable capital asset plan, needs to further enhance its audit trail facility utilization and review, and strengthen its password access controls.

FCC has taken steps to address its information technology and information systems security vulnerabilities. FCC developed its agency-wide security plan and is working toward compliance with required Federal policies and statutes; however, completion dates for key items to address this challenge have repeatedly been revised. In the area of information systems security, the Information Technology Center has developed a disaster recovery plan for its information technology infrastructure and the Wireless Technology Bureau's Auctions Operation Branch has implemented a robust network intrusion detection system. Furthermore, the Commission has begun implementing its capital investment program.

Revenue Gap

Although FCC collects approximately $250 million in regulatory fees each year, FCC can not determine if all required fees are collected. The difference between what is collected, an amount subject to Congressional determination, and what should have been collected if all regulated parties fully paid their fees, is deemed a revenue gap.

3

OIG Management Challenges
9/30/04

Recent systems development and the mandatory use of the FCC Registration Number provide the Commission with a record of each collection which facilitates bill generation to non-payees. In fiscal year 2004, FCC billed 3,449 payees comprising $141.5 million in regulatory fee. As of fiscal year end, FCC received $136.8 million of the billed regulatory fee. FCC's ability to bill regulatory fee payees is significant progress relating to collection of known payees. However, since FCC does not have a complete universe of potential regulatory fee payees, it cannot determine the total regulatory fee subject to collection, and it does not have a complete universe to facilitate regulatory fee rate assessment in future years.

Physical Security and Protection of Personnel

This challenge is not unique to FCC. Since September 11, 2001, physical security and protection of personnel have been critical issues in the Federal government and the United States in general.

The FCC has taken steps to identify and implement security measures to protect FCC personnel and its physical infrastructure. Specifically, FCC created a program to inform personnel regarding potential threats and threat management, prepared measures to address potential catastrophic events, and made security enhancements to FCC facilities. In the area of physical security, the Commission has significantly upgraded the security of its Gettysburg facility and has enhanced the physical access to the Portals II building with the addition of concrete barriers. Despite these efforts, the Commission has related personnel and physical infrastructure issues to complete. For example, the FCC has not completed a Commission-wide continuity of operations plan. Security and protection enhancements to some facilities have not been completed. And, recommendations regarding work place violence need to be addressed by an appointed task force.

MANAGEMENT'S RESPONSE TO SUMMARY OF SERIOUS MANAGEMENT CHALLENGES

UNITED STATES GOVERNMENT

MEMORANDUM

DATE: November 15, 2004

TO: Inspector General

FROM: Chairman

SUBJECT: Response to the Inspector General's Statement on the Federal Communications Commission's Major Management Challenges

Thank you for the October 15, 2004 memorandum providing your office's assessment of the management challenges the Federal Communications Commission (FCC) is now facing. Progress has been made since receipt of your first report for FY 2003, and in FY 2004 improvements continued on each of these challenges. A summary of the progress and status of each challenge identified is attached. I remain committed to a complete and successful resolution of all these concerns.

Attachment

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Management Responses to
Major Management Challenges
9/30/04

Reporting Component Investigations and Fraud

The Commission has taken numerous steps to improve Universal Service Fund (USF) oversight. To combat the risk of waste, fraud, and abuse in the USF program, the Commission took the following steps during Federal fiscal year (FY) 2004:

- Adopted new rules to revise the Commission's recovery approach such that recovery actions are now directed against any party or parties (including service providers and E-rate applicants) that have committed statutory or rule violations;

- Adopted new rules to strengthen audit and investigation processes, including the establishment of heightened scrutiny for applicants and service providers that have violated the statute or the Commission's rules in the past;

- Adopted and oversaw a targeted independent audit to address significant allegations of waste, fraud, and abuse concerning one Territorial Department of Education and its service providers;

- Ensured that USAC improved its own efforts to detect and deter waste, fraud, and abuse in the USF program. During FY 2004, USAC took steps to improve its oversight of the USF program, including: (a) developing a comprehensive plan to promote awareness of program rules in the E-rate community; (b) engaging an independent auditor to conduct 100 audits of E-rate program beneficiaries; (c) implementing an internal audit strategy focused on beneficiaries of all USF programs, as well as contributors to the USF; (d) working with the Commission's Office of Inspector General (OIG) to develop a plan for conducting hundreds of audits of USF beneficiaries; (e) initiating recovery of improperly disbursed funds; and (f) improving its review and processing of applications; and

- Improved its own managerial controls addressing USF oversight, including dedicating additional Commission staff to USF audit and oversight issues and revising the independent audit of USAC required by the Commission's rules to determine whether USAC is administering the program to prevent waste, fraud, and abuse.

During Federal fiscal year 2004, the Commission ensured that the Universal Service Administrative Company (USAC) conducted audits of USF beneficiaries, including audits performed by an independent auditor of $311,591,578 in USF monies provided to 79 randomly-selected Schools and Libraries Support Mechanism (E-rate) program beneficiaries. The 79 independent audits during Federal fiscal year 2004 resulted in recommended recovery of $8,899,897, or 2.86 percent of the total audited amount. To date, USAC, an independent auditor, or the Commission's Office of Inspector General (OIG) has issued a total of 198 audit reports of the E-rate program addressing a combined $1,141,400,629 in disbursements of E-rate program USF monies, or 13.3 percent of the total E-rate program USF monies disbursed since 1998. The 198 audits have resulted in a total recommended recovery amount of $43,949,362, or 3.85 percent of the $1.14 billion in E-rate program USF monies that were audited.

Safeguarding the USF program from the risk of waste, fraud, and abuse is an ongoing process that we continue to strive to improve. In this regard, the Commission continues to work on other measures intended to further safeguard the USF, including on-going rulemaking proceedings that address the appropriate amount of USF monies that should be disbursed in the program, the competitive bidding process, and mandatory independent audits of program beneficiaries. The Commission anticipates taking additional policy and program management steps in these areas during FY 2005.

With regard to the ongoing investigation of the Telecommunications Relay Service Fund, a settlement agreement between the defendant and the US Attorney's Office was signed as of September 30, 2004, and is currently awaiting approval by the court.

Financial Reporting

Major strides have been made by the FCC over the past several years in financial reporting. During FY 2004, a new cost accounting system was implemented that provides both budgetary and financial reporting of the goals included in the FCC's Strategic Plan. This is the first system that has allowed us to report on our results of operations as they correspond to our performance measurements. In addition, we implemented an additional module in our subsidiary revenue system that allows us to account for all the financial transactions relative to the auctions held by the FCC. Our previous manual process documented only by spreadsheets now resides in an automated financial system. Another major accomplishment is the completed outsourcing of loans operations to a service provider. The provider has been operational for the entire year and has provided monthly, quarterly and year-end reports to support our loan activity and balances.

Of course, we still have more to achieve in the financial reporting arena. The FCC has initiated a review for a replacement of our existing automated financial accounting system, which would integrate more of the systems than currently linked. Expected completion of that review is during FY 2005. In addition, a final module in our subsidiary revenue and accounting system will be implemented fully. This final module will account for all International Telecommunications Settlements. And finally, we continue to work on the consolidation of financial information of the FCC and its reporting components. This process remained fully manual for FY 2004, however with the implementation of GovGAAP by the components, consistency of financial transactions and data will allow a more expeditious consolidation of financial data on a monthly, quarterly and year-end basis to generate the required financial reports.

Reporting Components

The establishment and utilization of the reporting components by the Commission has been instrumental in accomplishing critical strategic objectives. They play a key part in carrying out the Commission's direction and provide an avenue for the Commission to accomplish its goals.

During FY 2004, the Commission took significant steps towards strengthening oversight of the Universal Service Administrative Company. In particular, the Commission implemented the following measures:

- Established an inter-bureau and office working group to more effectively coordinate oversight issues affecting the Universal Service Fund and USAC;
- Monitored USAC's efforts to ensure compliance with the Commission's Debt Collection Implementation Act (DCIA) rules adopted in April 2004;
- Reviewed and approved USAC's quarterly administrative expense filings and projected program demand;

- Responded to USAC's request for guidance pertaining to Federal budgetary accounting requirements. This process involved gaining an understanding of the legal, policy, and accounting issues related to USAC's transition to Government accounting standards, coordinating with other agencies within the Federal Government, and providing written instructions to USAC in less than eight weeks after these issues were raised to senior Commission staff; and

- Improved its own managerial controls addressing USF oversight, including dedicating additional Commission staff to USF audit and oversight issues, revising the independent audit of USAC's administration of the USF, attending USAC's quarterly meetings of its Board of Directors, and implementing a tracking system to assist in identifying and resolving policy and program management issues. In addition, the Commission initiated regular coordination meetings between senior and mid-level staff of USAC and the Commission.

Ensuring proper oversight of USAC and the USF is an ongoing process that we continue to strive to improve. The Commission anticipates taking additional policy and program management steps to strengthen oversight of USAC and the USF during FY 2005, including both reevaluating the Commission's internal policies and procedures governing oversight of USAC and the USF and considering oversight issues in on-going rulemakings and other proceedings.

Information Technology and Information Systems Security

The FCC is taking proactive steps to address its information technology infrastructure and information systems security vulnerabilities, such as developing agency-wide security plans and working towards compliance with all required Federal policies and statutes. We recognize that completion dates for some key milestones have been revised due to resource and budget constraints.

One challenge we continually face is to sustain a secure and compliant IT infrastructure from internal and external threat. Our efforts towards the development and testing of the FCC's Information Technology Disaster Recovery Plan (IT DRP) were hampered by budgetary constraints, but we successfully completed and tested the Continuity of Operations Plan (COOP) and IT DRP during the first ever Federal Government-wide COOP test, Forward Challenge in May 2004. Additional work is underway to enhance COOP and IT DRP capabilities to include business applications and other related efforts.

We are also working to better manage our information technology investment portfolio and meet all applicable Federal policies, such as OMB Circular A-130 and the Clinger-Cohen Act. Efforts are already underway to formalize and implement a formal, documented information technology Capital Planning and Investment Control process, including procedures with defined criteria for the selection, control, and evaluation of investments. An IT Steering Committee (ITSC), comprised of representatives from the Bureaus and Offices, has been formally chartered by the Chairman and has been meeting monthly since March 2004. The purpose of the ITSC is to ensure an agency-wide approach to leveraging information technology in support of the mission critical activities of the FCC. In addition, the ITSC will prescribe policy and responsibilities for IT capital planning and investment processes throughout the FCC.

Revenue Gap

The FCC made substantial progress in the assessment and billing of regulatory fees. In particular, the Commission implemented the following measures: directly billed satellite licensees and interstate service providers (the largest fee category), instead of notifying them of charges through a general public notice; assessed fees on CMRS licensees and cable owners for the first time; and mailed postcards to media licensees and their legal representatives. We expect to directly bill the media licensees in FY 2005.

Based upon the agency's best current understanding of the universe of regulatory fee payers, we believe that the billing and assessment of interstate service providers, CMRS, cable, satellite and media licensees represents in excess of 94% of all regulatory fees owed. Specific recommendations for improving the agency's collection process are being considered in FY 2005.

Physical Security and Protection of Personnel

The COOP was developed and practiced in FY 2002, including a tabletop exercise involving about 50 FCC personnel at all levels. In FY 2003, the FCC's disaster recovery plan (DRP) was developed and initial information technology and telecommunications testing was conducted. During FY 2004, briefings for essential personnel were conducted in February, another tabletop exercise was conducted in March, and the FCC participated in the first-ever government-wide COOP exercise, Forward Challenge, in May. Forty-four agencies and 4,000 staff from across Government participated in that exercise, designed to further improve COOP and DRP execution. The FCC is planning to participate in Pinnacle 2005, an even larger-scale COOP exercise next May. Each time we conduct a COOP or DRP briefing, tabletop exercise, or actual deployment, the underlying documents and processes are revised based on lessons learned and best practices.

The FCC appointed a task force in January 2002 to address recommendations regarding workplace violence. The task force developed a zero tolerance policy, the FCC Policy Statement on the Prevention of Workplace Violence, and distributed this policy to all employees and contractors in June 2002. In addition, the FCC established and trained an advisory Threat Assessment Team. The agency is currently conducting workplace violence briefings for all supervisors, managers and Contracting Officer’s Technical Representatives. To date, 97% of FCC supervisors and managers have attended this training.

Appendix A: Glossary of Acronyms

The Telecom-munications Act	The Telecommunications Act of 1996
The Act	The Communications Act of 1934, as amended
ADA	Americans with Disabilities Act
ADSL	Asymmetric Digital Subscriber Lines
Agency	Federal Communications Commission
APOA	Alternate Processing Options Analysis
ARC	Appalachian Regional Commission
AWS	Advanced Wireless Services
BEAMS	Budget Execution and Management System
BPD	Bureau of Public Debt
BIA	Business Impact Analysis
Big LEO	Low-Earth Orbit Mobile-Satellite systems
BPL	Broadband Power Lines
C&A	Certification and Accreditation
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	Comision Interamericana de Telecommunicaciones
CLE	Continuing Legal Education
CLEC	Competitive Local Exchange Carrier
CMRS	Commercial Mobile Radio Services
Commission	Federal Communications Commission
COOP	Continuity of Operations Plan
COTS	Commercial off-the-shelf
CPIC	Capital Planning and Investment Control
CPI	Consumer Price Index
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
EAS	Emergency Alert System
EI	Effective interest method
ESV	Earth Station on Vessel
EV-DO	Evolution-Data Only
FACA	Federal Advisory Committee Act
FACTS 1	Federal Agency Centralized Trial Balance System

FBI	Federal Bureau of Investigation
FCC	Federal Communications Commission
FCCU	FCC University
FCRA	Federal Credit Reform Act of 1990
FECA	Federal Employee Compensation Act
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
FTE	Full-time equivalents
FY	Fiscal year
GAAP	Generally accepted accounting principles
GAO	Government Accountability Office
GET	Government Emergency Telephone services
GHz	Gigahertz
GPRA	Government Performance and Results Act of 1993
HD	High Definition
IB	International Bureau
IBOC	In-Band On-Channel
ICASS	International Cooperative Administrative Support Services
IEEE	Institute of Electrical and Electronic Engineers
IMPACT	Improving Management of Policy Activities through Collaborative Technologies
IP	Internet Protocol
IPIA	Improper Payments Information Act
ISP	International Settlements Priority
ISP	Internet Services Provider
IT	Information Technology
IT DRP	Information Technology Disaster Recovery Plan
ITFS	Instructional Television Fixed Service
ITS	Intelligent Transportation System
ITS	International Telecommunications Settlement
ITSP	Interstate Telecommunications Service Providers
ITU	International Telecommunications Union
IVDS	Interactive Video and Data Service
JFMIP	Joint Financial Management Improvement Program
JSA	Joint Services Agreement
Kbps	Kilobits per second
LMDS	Local Multichannel Distribution Service
LNP	Local Number Portability
LPFM	Low Power FM
LPTV	Low Power Television
MDS	Multichannel Distribution Service
MHz	Megahertz
MMDS	Multichannel Multipoint Distribution System

MSRC	Media Security and Reliability Council
MVPD	Multichannel Video Programming Distribution
NA	Not applicable
NAL	Notice of Apparent Liability
NANP	North American Numbering Plan
NANPA	North American Numbering Plan Administrator
NCS	National Communications System
NECA	National Exchange Carriers Association
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
OET	Office of Engineering and Technology
OFDM	Orthogonal Frequency Division Multiplexing
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
PERM	Performance Evaluation and Records Management
PP&E	Property, Plant and Equipment
PSAP	Public Safety Answering Points
PSIP	Program and System Information Protocol
QPRR	Quarterly Performance and Results Review
RAMIS	Revenue Accounting and Management Information System
Report	Performance and Accountability Report
RF	Radio Frequency
RFID	Radio Frequency Identification
RUS	Rural Utilities Service
S&E	Salaries & Expenses
SFFAS	Statement of Federal Financial Accounting Standards
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
TELRIC	Total Element Long-Run Incremental Cost
Treasury	U.S. Department of the Treasury

TRS	Telecommunications Relay Service (Fund)
TSP	Telecommunications Service Priority
TV	Television
UCC	Uniform Commercial Code
UNE	Unbundled Network Element
U.S.	United States
USAC	Universal Service Administrative Company
U.S.C.	United States Code
USDA	United States Department of Agriculture
USF	Universal Service Fund
USCG	United States Coast Guard
UWB	Ultra-wideband
VERA	Voluntary Early Retirement Authority
VoIP	Voice-over Internet Protocol
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
UNE	Unbundled Network Element
U.S.	United States