FEDERAL COMMUNICATIONS COMMISSION

Fiscal Year 2010
Agency Financial Report

(October 1, 2009 – September 30, 2010)

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Message from the Chairman

I am pleased to present the Federal Communications Commission's (FCC) Financial Report for Fiscal Year (FY) 2010. The Financial Report provides key financial and performance information to Congress and the American people. Continuing the FCC's strong commitment to maintaining a culture of accountability for the funds it manages, it is my pleasure to report that for the fifth consecutive year, the FCC has obtained an unqualified or "clean" audit opinion on its financial statements, and the FCC's independent auditors, KPMG, did not identify any material weaknesses in the FCC's operations. The independent auditors' opinion addresses more than $500 million in FCC operating expenses and over $8 billion in outlays for the Universal Service Fund and Telecommunications Relay Service Fund. Despite the positive audit opinion, the independent auditors' report does show that work remains to be done here at the FCC to continue to improve the agency's operations so it can deliver on its mission for the America people.

The FCC's mission centers on communications networks and technology, which have the potential to unleash new waves of innovation, thereby increasing opportunity and prosperity, driving American competitiveness and leadership, connecting our country, strengthening our democracy – and transforming lives for the better. I welcome the opportunity to highlight how the FCC has fulfilled its important role in pursuing these goals on behalf of all Americans throughout FY 2010.

In the American Recovery and Reinvestment Act of 2009, Congress directed the FCC to develop a National Broadband Plan (Plan) to ensure every American has "access to broadband capability." Congress also required that the Plan include a detailed strategy for achieving affordability and maximizing use of broadband to advance "consumer welfare, civic participation, public safety and homeland security, community development, health care delivery, energy independence and efficiency, education, employee training, private sector investment, entrepreneurial activity, job creation and economic growth, and other national purposes."

The Plan, released in March 2010, offers comprehensive recommendations to improve the health of the entire broadband ecosystem — networks, devices, content and applications. To accomplish this, the Plan's recommendations ask the FCC to:

- Design policies to ensure robust competition and as a result maximize consumer welfare, innovation and investment.
- Ensure efficient allocation and management of assets that government controls or influences, such as spectrum, poles, and rights-of-way, to encourage network upgrades and competitive entry.
- Reform current universal service mechanisms to support deployment of broadband and voice in high-cost areas; ensure that low-income Americans can afford broadband; and support efforts to boost adoption and utilization.
- Reform laws, policies, standards and incentives to maximize the benefits of broadband in sectors government influences significantly, such as public education, health care and government operations.

The Plan is a result of an unprecedented effort by the FCC staff to work with the private and public sectors. It involved thirty-six public workshops held at the FCC and streamed online, which drew more than 10,000 in-person or online attendees and provided the framework for the ideas contained within the Plan. These ideas were then refined based on replies to 31 public notices, which generated some 23,000 comments totaling about 74,000 pages from more than 700 parties. The FCC also received about 1,100 ex parte filings totaling some 13,000 pages and nine public hearings were held throughout the country to further clarify the issues addressed in the Plan. The Internet also provided new ways to involve the public. Through an innovative Web presence at http://www.broadband.gov, the FCC posted more than 130 blog entries and received nearly 1,500 comments in return. The FCC's Twitter feed now has more than 330,000 followers, making it the third most popular government Twitter feed after the White House and the Centers for Disease Control.

The FCC staff digested this extensive record and worked long hours analyzing and debating the record. Public comment on the Plan, however, does not end here. At the FCC we are working hard to implement the Plan, including unleashing and recovering spectrum, licensed and unlicensed; improving mapping of broadband availability; lowering the cost of deploying broadband infrastructure; reforming the Universal Service Fund; promoting adoption of broadband; and promoting broadband for specific uses such as telemedicine, education, and e-government.

In addition to the Plan, I have worked with the committed and talented staff of the FCC to make the agency a "model of excellence" in government. We cultivated an inclusive process through which the public is more involved in the work of the FCC using technology and new media. Specifically, through the creation of the FCC "Reboot" site, the agency now provides a clearinghouse for sharing information, gathering information, blogs and anonymous feedback. Key initiatives available on FCC "Reboot" include the new Parents' Place webpage (http://reboot.fcc.gov/parents/). From televisions to laptops to cell phones, electronic media have become our children's almost constant companions. Parents' Place provides resources and information about how to improve a child's safety in today's complex media landscape, and explains what the FCC is doing to help. Another important initiative available on FCC "Reboot" is the Consumer Help Center (http://reboot.fcc.gov/consumers/). Developed by the Consumer Task Force I created in January 2010, the Help Center benefits consumers by providing information on obtaining the best value from their telephone, TV, and internet service, filing a complaint, or learning about the FCC's consumer protection regulations.

As the nation's expert agency on communications, the FCC must also have access to, and base its decisions on, data that is robust, reliable, and relevant. Following an agency-wide examination of our more than $2 million in data acquisition costs this year, FCC staff reviewed how the Commission manages licensed data and information. This analysis then enabled FCC staff to provide a series of recommendations designed to make our purchase and use of data more efficient and effective, including a proposal to centralize the purchase and management of data acquisition.

Other highlights of key accomplishments during my chairmanship include establishment of a "Senior Counsel on FCC Reform" – a position that focuses on openness and transparency at the agency and reports directly to me. I also worked to make management accountable for employee satisfaction, specifically briefing management on results and establishing goals in key leadership areas as well as coaching managers, and worked on leadership development, specifically the establishment of executive leadership forums. This is all in addition to modernizing the FCC's online infrastructure, greening the agency, and a focus on charitable giving and community outreach.

Through these and many other efforts, I am extremely honored and pleased that under the results of our 2010 Office of Personnel Management (OPM) Employee Survey the FCC was the most improved agency in the Federal Government**.** OPM tracks four categories in the survey: Leadership, Results

Orientation, Talent Management, and Job Satisfaction. Across all Federal agencies, the FCC was in the top 10 for the first two categories, was most improved in three of the four, and tied for second most improved in the fourth. I am extremely proud of these results which sends the clear message to keep moving forward on the path we have laid out to be a “model of excellence in Government.”

In closing, please note that a more comprehensive report about the FCC’s FY 2010 accomplishments will be included in the FCC’s FY 2010 Annual Performance Report, which will be released in February 2011 with the FCC’s annual budget submission. The Financial Report that follows contains the FCC’s FY 2010 financial statements and other management highlights; the information contained therein is reliable and complete.

Julius Genachowski
Chairman
November 15, 2010

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1. Management's Discussion and Analysis

Overview of the FCC

INTRODUCTION

The revised OMB Circular A-136, released on September 29, 2010, states that agencies may choose either to produce a consolidated Performance and Accountability Report or a separate Agency Financial Report (AFR) and an Annual Performance Report (APR). The Federal Communications Commission (Commission) has chosen to produce the AFR as an alternative to the consolidated Performance and Accountability Report. The Commission will include its FY 2010 APR with its Congressional Budget Justification and will post it on the Commission web site at http://www.fcc.gov/ by February 7, 2011.

The AFR includes three sections. AFR Section 1 contains Management's Discussion and Analysis (MD&A) which presents an overview of the Commission, including the agency's organizational chart, a map of field offices, strategic goals and objectives, strategies and resources to achieve goals, components of the Commission for financial statement purposes, performance highlights, management assurances, and a financial discussion and analysis.

AFR Section 2 contains the agency's financial information. This section contains the letter from the chief financial officer (CFO) summarizing planned timeframes for correcting audit weaknesses and non-compliances, major impediments to correcting audit weaknesses and non-compliances, and progress made in correcting previously reported problems. Additionally, this section contains the independent auditors' report, the Commission's response to the independent auditors' report, the financial statements, the notes to the financial statements and required supplementary information.

AFR Section 3 presents other accompanying information such as a summary of financial statement audit results, a summary of management assurances, details on reporting improper payments pursuant to the Improper Payments Information Act, management and performance challenges from the Office of Inspector General, and management's response to such challenges.

ABOUT THE FCC

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

Five Commissioners direct the work of the FCC. All five Commissioners are appointed by the President and confirmed by the Senate for five-year terms, except when filing the unexpired term of a previous Commissioner. Only three Commissioners can be of the same political party at any given time and none can have a financial interest in any company or entity that has a significant interest in activities regulated by the Commission.

The President designates one of the Commissioners to serve as Chairman.

The Chairman and the Commissioners at the end of FY 2010 were the following:

- Chairman Julius Genachowski
- Commissioner Michael J. Copps
- Commissioner Robert M. McDowell
- Commissioner Mignon Clyburn
- Commissioner Meredith Attwell Baker

Pictured from left to right are Commissioner Clyburn, Commissioner Copps, Chairman Genachowski, Commissioner McDowell, and Commissioner Baker.

MISSION AND ORGANIZATIONAL STRUCTURE

As specified in section one of the Communications Act, the Commission's mission is to "make available, so far as possible, to all the people of the United States, without discrimination on the basis of race, color, religion, national origin, or sex, a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges." [1] In addition, section one provides that the Commission was created "for the purpose of the national defense" and "for the purpose of promoting safety of life and property through the use of wire and radio communication."[2]

The FCC Chairman leads the Commission as head of the agency. In order to accomplish its strategic plan, the FCC is organized by function. There are seven Bureaus and ten Offices. The Bureaus and the Office of Engineering and Technology process applications for licenses to operate facilities and provide communication services in specific locations and on specific radio frequencies, analyze complaints from citizens and other licensees, conduct investigations, develop and implement regulatory programs, and participate in hearings. Generally, the Offices provide specialized support services. Bureaus and Offices regularly join forces and share expertise in addressing FCC-related issues.

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[1] 47 U.S.C. § 151.

[2] *Id.*

The Bureaus

- The Consumer & Governmental Affairs Bureau develops and implements the FCC's consumer policies, including disability access. The Bureau serves as the public face of the Commission through outreach and education, as well as through the Consumer Center, which is responsible for responding to consumer inquiries and complaints. The Bureau also maintains collaborative partnerships with state, local, and tribal governments in such critical areas as emergency preparedness and implementation of new technologies.

- The Enforcement Bureau enforces the Communications Act and the FCC's rules. The Bureau protects consumers, fosters efficient use of the spectrum, furthers public safety, and promotes competition.

- The International Bureau administers the FCC's international telecommunications and satellite programs and policies, including licensing and regulatory functions. The Bureau also has a unique role in promoting pro-competitive policies abroad, coordinating the Commission's global spectrum activities, and advocating U.S. interests in international communications and competition. The Bureau works to promote a high quality, reliable, globally interconnected, and interoperable communications infrastructure.

- The Media Bureau recommends, develops, and administers the policy and licensing programs relating to electronic media, including radio and broadcast, cable, and satellite television in the United States and its territories.

- The Public Safety and Homeland Security Bureau supports initiatives that strengthen public safety and emergency response capabilities to better enable the FCC to assist the public, law enforcement, hospitals, communications industry, and all levels of government in the event of a natural disaster, pandemic, or terrorist attack.

- The Wireless Telecommunications Bureau is responsible for wireless telecommunications programs and policies in the United States, including licensing of wireless communications providers. Wireless communications services include cellular, paging, personal communications, and other radio services used by businesses and private citizens. The Bureau also conducts auctions of licenses for the communications spectrum.

- The Wireline Competition Bureau develops and recommends policy goals, objectives, programs, and plans on matters concerning wireline telecommunications. It strives to ensure choice, opportunity, and fairness in promoting the development and widespread availability of wireline telecommunications services.

The Offices

- The Office of Administrative Law Judges is composed of judges who preside over hearings and issue decisions on matters referred to them by the Commission.

- The Office of Communications Business Opportunities promotes competition and innovation in the provision and ownership of telecommunication services by supporting opportunities for small businesses as well as women- and minority-owned communications businesses.

- The Office of Engineering and Technology advises the Commission on technical and engineering matters. The Office develops and administers FCC decisions regarding spectrum allocations, and grants equipment authorizations and experimental licenses.

- The Office of General Counsel serves as the Commission's chief legal advisor.

- The Office of Inspector General conducts and supervises audits and investigations relating to FCC programs and operations.

- The Office of Legislative Affairs serves as the liaison between the FCC and Congress, as well as other federal agencies.

- The Office of Managing Director administers and manages the FCC.

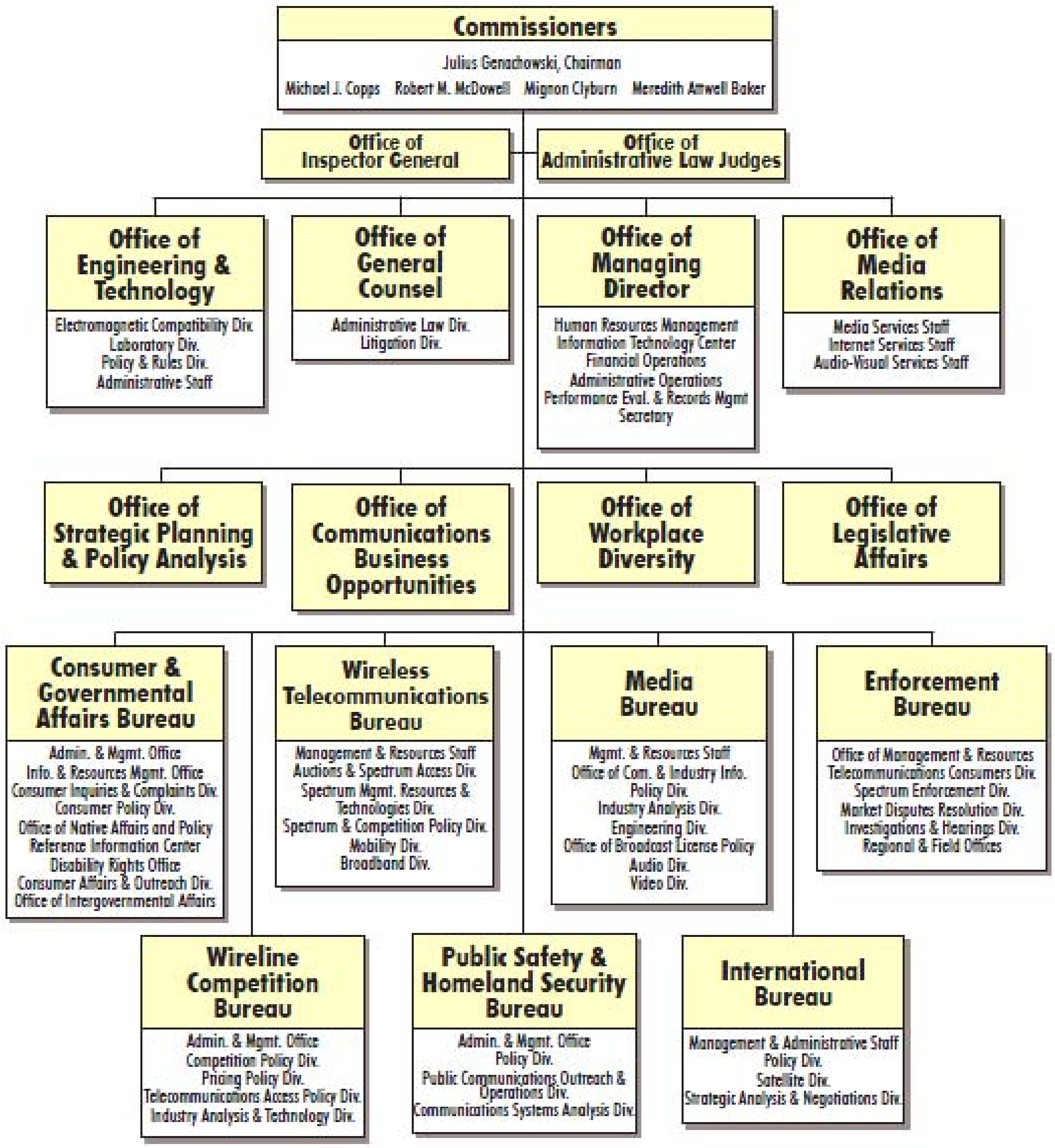
- The Office of Media Relations informs the media of FCC decisions and serves as the FCC's main point of contact with the media.

- The Office of Strategic Planning and Policy Analysis works with the Chairman, Commissioners, Bureaus, and Offices in strategic planning and policy development for the agency. It also provides research, advice, and analysis of complex, novel, and non-traditional economic and technological communications issues.

- The Office of Workplace Diversity ensures that the FCC provides employment opportunities for all persons regardless of race, color, sex national origin, religion, age, disability, or sexual preference.

Detailed information on specific bureau and office responsibilities can be found both in Title 47 of the Code of Federal Regulations and on the Commission's web site at: http://www.fcc.gov.

FCC ORGANIZATIONAL CHART



MAP OF FIELD OFFICES

The Commission has multiple regional and field offices and resident agent locations around the United States. The regional and field offices and resident agents are responsible for carrying out on-scene investigations, inspections, audits, and other matters, including matters that are the subject of field complaints and that are referred to them from within the Enforcement Bureau or by other bureaus and offices. These functions include immediate response to safety of life issues, interference resolution, investigation of violations in all communication services, surveys for compliance or feedback to the rulemaking process, local assistance to other agencies or countries in communications matters, representation of the Commission to groups, organizations, and international contacts at a local level, and other matters as may be assigned by the Enforcement Bureau Chief. As appropriate, the field offices refer matters to or coordinate with other divisions within the Enforcement Bureau. Below is a map of all Commission field offices and resident agent locations, including the Equipment Development Group (EDG) which designs, develops, and constructs radio direction-finders and other specialized equipment for use in spectrum enforcement, interference resolution, and other technical activities of the Enforcement Bureau.

STRATEGIC GOALS AND OBJECTIVES

The Commission has identified six long-term strategic goals in its FY 2009 – FY 2014 Strategic Plan. The strategic goals serve as guidance directing the actions and performance of the FCC. Progress toward accomplishing these goals is measured by the progress and completion of annual performance goals during the fiscal year. There are external influences, including economic, legal, and organizational factors beyond the Commission's programs and efforts that may influence whether the Commission fully meets every performance goal. Details on the Commission's strategic goals, as well as the strategies and resources used to meet these goals, can be found in the Commission's strategic plan at: http://www.fcc.gov/omd/strategicplan. The FCC's long-term strategic goals are:

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

STRATEGIES & RESOURCES TO ACHIEVE GOALS

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

COMPONENTS OF THE FCC FOR FINANCIAL STATEMENT PURPOSES

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

Universal Service Fund (USF) - The Telecommunications Act of 1996 further amended the Communications Act of 1934 to codify and modify the Commission's longstanding policy of promoting universal telecommunications service throughout the nation. Pursuant to section 254, the Commission established rules and regulations governing how certain telecommunications service providers contribute to the USF and how those monies are disbursed.[3]

For budgetary purposes, the USF comprises five elements that consist of four universal service support mechanisms and the Telecommunications Relay Service (TRS) Fund. The TRS Fund represents a program established under section 225 of the Act. This statute provides for a mechanism to support relay services necessary for telecommunications access by speech or hearing impaired populations.[4]

The Universal Service Administrative Company (USAC) administers the four universal service support mechanisms of the USF under the Commission's direction. These support mechanisms are funded through mandatory contributions from U.S. telecommunications service providers, including local and long distance phone companies, wireless and paging companies, payphone providers, and providers of interconnected Voice over Internet Protocol (VoIP) services. The four universal service support mechanisms are: High Cost, Low Income, Rural Health Care, and Schools and Libraries. These support mechanisms provide money directly to service providers to defray the cost of serving customers in high cost and rural areas, and to defray the costs of serving low income consumers as well. In addition, these mechanisms provide support for discounts to schools and libraries and rural health care providers. In FY 2010, the USF accounted for approximately $8.2 billion on the Commission's Combined Statement of Budgetary Resources. Additional information on USAC and the USF, respectively, can be found at http://www.usac.org and http://www.fcc.gov/wcb/tapd/universal_service/welcome.html.

The National Exchange Carrier Association (NECA) administers the TRS Fund under the Commission's direction. The TRS Fund compensates TRS providers for the reasonable costs of providing interstate telephone transmission services that enable a person with a hearing or speech disability to communicate with a person without hearing or speech disabilities. The costs of providing interstate TRS are recovered from subscribers of interstate telecommunications services. In FY 2010, TRS accounted for approximately $753 million on the Commission's Combined Statement of Budgetary Resources. Additional information on NECA and TRS can be found at http://www.neca.org/ and http://www.fcc.gov/cgb/dro/trs.html.

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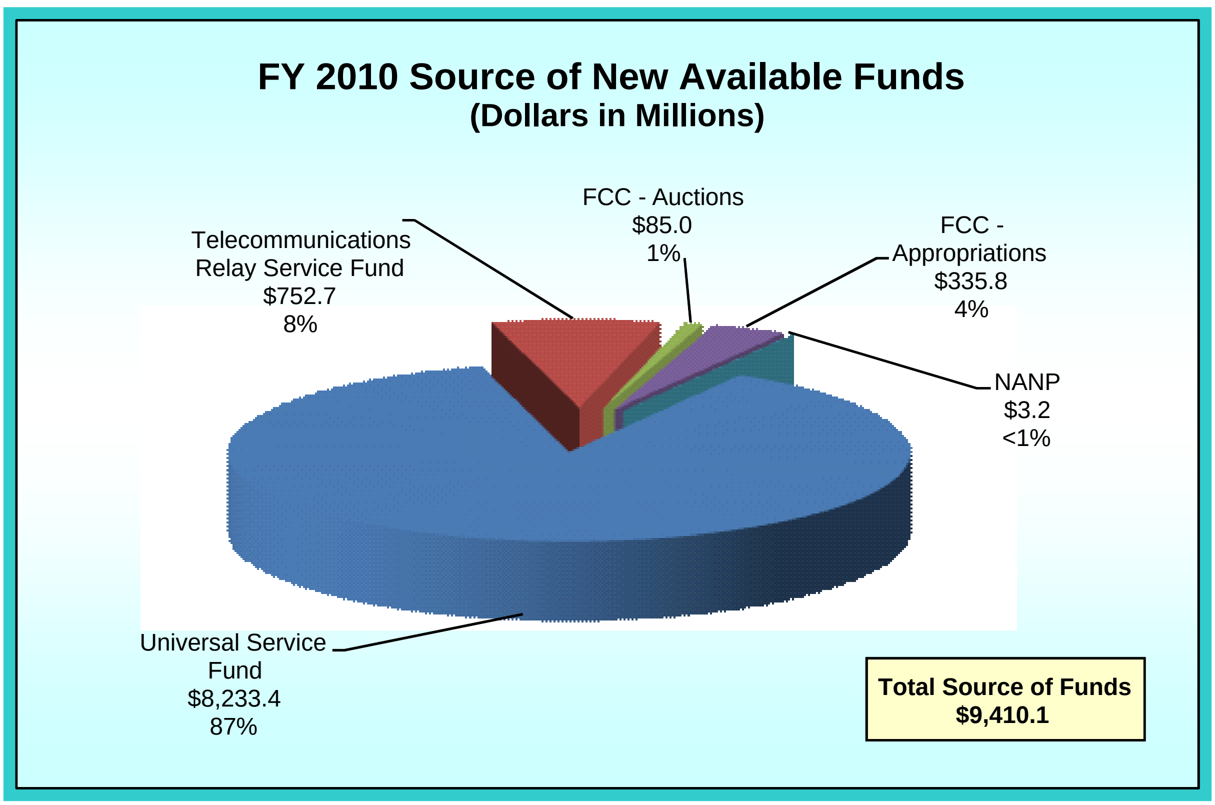
[3] 47 U.S.C. § 254.
[4] 47 U.S.C. § 225.

North American Numbering Plan (NANP) - The NANP is the basic numbering scheme permitting interoperable telecommunications service within the U.S., Canada, Bermuda, and most of the Caribbean. Section 251(e) (1) of the Act requires the Commission to create or designate one or more impartial entities to administer telecommunications numbering and to make such numbers available on an equitable basis. Section 251(e) (2) of the Act requires that the costs of number administration and number portability be borne by all telecommunications carriers on a competitively neutral basis, as determined by the Commission. In implementing section 251, the Commission appointed a NANP Administrator (NANPA), a national Pooling Administrator (PA) to administer thousands block number pooling, and a Billing and Collection Agent. The Commission selected Welch LLP to be the Billing and Collection Agent for NANP effective October 1, 2004. In FY 2010, NANP accounted for approximately $3.2 million on the Commission's Consolidated Statement of Net Cost. Additional information on NANPA and the Billing and Collection Agent can be found at http://www.fcc.gov/wcb/cpd/numbering/ and http://www.nanpa.com.

For further clarification on the financial relationships between the Commission and these components, see Note 1 of the financial statements in section 2. Also, see the chart below which shows the relative size of the component funds in comparison to the major sources of funds for the Commission.



The Appropriations figure of $335.8 million in the chart above reflects the authority for the Commission to collect regulatory fees. (For additional information, see Note 1 of the financial statements in section 2.) Not depicted in the above chart are funds collected by the Commission in FY 2010 for Application Fees, Fines and Penalties, and additional funds made available to the Commission from reprogramming actions.

Performance Highlights

Consistent with the objectives of the Communications Act as amended, as well as the Government Performance and Results Act (GPRA), the Federal Communications Commission identified six strategic goals. The strategic goals serve as guidance directing the actions and performance of the FCC. The Commission assesses the achievement of its performance through the accomplishment of its performance goals. Progress toward accomplishing these goals is measured by the progress and completion of various programs and efforts during the fiscal year. There are external influences, including economic, legal, and organizational factors beyond the Commission's programs and efforts that may influence whether the Commission fully meets every performance goal.

During the past fiscal year, the Commission made significant progress toward accomplishing its performance goals. Greater detail on these accomplishments will be discussed in the FCC Annual Performance Report (APR) for FY 2010. The Commission will include the FY 2010 APR with its Congressional Budget Justification and will post it on the Commission web site at http://www.fcc.gov/ in February 2011. In the discussion below, we identify achievements in the Commission's major initiatives during the past fiscal year, organized by Strategic Goal.

BROADBAND

All Americans should have affordable access to robust and reliable broadband products and services. Regulatory policies must promote technological neutrality, competition, investment, and innovation to ensure that broadband service providers have sufficient incentive to develop and offer such products and services.

The American Recovery and Reinvestment Act of 2009 (Recovery Act) tasked the FCC with creating a National Broadband Plan. The Recovery Act stated that the Plan shall seek to ensure all people of the United States have access to broadband capability and shall establish benchmarks for meeting that goal. Broadband is the major infrastructure challenge of our time. Earlier generations faced, and rose to, similar challenges with railroads, highways, telephones, and electricity – networks that have connected Americans, served as a platform for commerce, and improved the quality of life for all Americans.

On March 16, 2010, the Federal Communications Commission delivered to Congress a National Broadband Plan setting an ambitious agenda for connecting all corners of the nation while transforming the economy and society with the communications network of the future -- robust, affordable Internet. Titled "*Connecting America: The National Broadband Plan*," the Plan found that while broadband access and use have increased over the past decade, the nation must do much more to connect all individuals and the economy to broadband's transformative benefits. Nearly 93 million Americans lack broadband at home, and between 14 to 24 million Americans do not have access to broadband even if they want it. Only 42 percent of people with disabilities use broadband at home, while as few as 5 percent of people living on Tribal lands have access. Meanwhile, the cost of digital exclusion for the student unable to access the Internet to complete a homework assignment, or for the unemployed worker who can't search for a job online, continues to grow.

Other gaps threaten America's global competitiveness. A looming shortage of wireless spectrum could impede U.S. innovation and leadership in wireless mobile broadband services. More useful applications, devices, and content are needed to create value for consumers. The nation has also failed to harness broadband's power to transform delivery of government services, health care, education, public safety, energy conservation, economic development, and other national priorities.

The Plan's call for action over the next decade includes the following goals and recommendations:

- Connect 100 million households to affordable 100-megabits-per-second service, building the world's largest market of high-speed broadband users and ensuring that new jobs and businesses are created in America.
- Affordable access in every American community to ultra-high-speed broadband of at least 1 gigabit per second at anchor institutions such as schools, hospitals, and military installations so that America is hosting the experiments that produce tomorrow's ideas and industries.
- Ensure that the United States is leading the world in mobile innovation by making 500 megahertz of spectrum newly available for licensed and unlicensed use.
- Move our adoption rates from roughly 65 percent to more than 90 percent and make sure that every child in America is digitally literate by the time he or she leaves high school.
- Bring affordable broadband to rural communities, schools, libraries, and vulnerable populations by transitioning existing Universal Service Fund support from yesterday's analog technologies to tomorrow's digital infrastructure.
- Promote competition across the broadband ecosystem by ensuring greater transparency, removing barriers to entry, and conducting market-based analysis with quality data on price, speed, and availability.
- Enhance the safety of the American people by providing every first responder with access to a nationwide, wireless, interoperable public safety network.

Less than one month after issuing the National Broadband Plan, the FCC announced an ambitious 2010 agenda for implementing key recommendations of the National Broadband Plan that involve rulemakings and other notice-and-comment proceedings. The 2010 Broadband Action Agenda proposed more than 60 rulemakings and other notice-and-comment proceedings that require Commission action. The FCC will simultaneously work to implement numerous Plan recommendations that do not require formal agency proceedings, while other government bodies and stakeholders consider Plan recommendations that fall outside the agency's areas of responsibility. FCC actions taken to implement the Plan can be tracked at http://www.broadband.gov/plan/broadband-action-agenda.html.

A major initiative to promote affordable broadband access for all Americans is reform of the Universal Service Fund. The Commission adopted a Notice of Inquiry (NOI) and Notice of Proposed Rulemaking (NPRM) to cut inefficiencies in existing support of voice services and creating a Connect America Fund (CAF) that directly supports broadband without increasing the size of the Universal Service Fund over the current baseline projection. The Commission also enacted updates to the "E-rate" program, through which 97 percent of American schools now have Internet access. The National Broadband Plan found that many schools will need significant upgrades to meet future broadband speed and capacity demands, and that many E-rate policies are out-of-date. The E-Rate Order[5] will help bring affordable, super-fast fiber connections to America's schools and libraries, open the door to "School Spots" where schools have the option to provide Internet access to the local community after students go home, launches a pilot program that supports off-campus wireless Internet connectivity for mobile learning devices, and indexes the current disbursement cap in a fiscally responsible manner to maintain current purchasing power.

The Commission also addressed the affordability and availability of broadband services by adopting an Order (FCC 10-84, released May 20, 2010) speeding and reducing the costs of access to an essential piece of infrastructure: utility poles. The impact of utility pole attachment rates on broadband can be particularly acute in rural areas, where there often are more poles per mile than households. The Commission's Order reduces costs and speed access to poles by clarifying the statutory right of communications providers to use the same space and cost-saving techniques that pole owners use, such as placing attachments on both sides of a pole.

The FCC adopted a Notice of Proposed Rulemaking (FCC 10-125, released July 15, 2010) proposing a new health care connectivity program that would expand investment in broadband for medically underserved communities across the country. The program will give patients in rural areas access to state-of-the-art diagnostic tools typically available only in the largest and most sophisticated medical centers. This program will invest up to $400 million annually to enable doctors, nurses, hospitals and clinics to deliver, through communications technology, world-class health care to patients, no matter where they live.

To provide consumers with real-time information about their broadband connections, the FCC launched two new digital tools during FY 2010. The Consumer Broadband Test measures broadband quality indicators such as speed and latency, and reports that information to consumers and the FCC. The mobile version -- the FCC's first mobile app -- is available through the Apple and Android app stores. The Broadband Dead Zone Report enables Americans to submit the street address location of a broadband "Dead Zone" where broadband is unavailable for purchase. Both tools are available on www.broadband.gov.

COMPETITION

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

Competition in the provision of communications services, both domestically and overseas, supports the Nation's economy. The competitive framework for communications services should foster innovation and offer consumers reliable, meaningful choice in affordable services. In May 2010, the FCC adopted its 14th annual report on the state of competition in the mobile wireless industry (FCC 10-81, released May 20, 2010). Unlike previous reports, which examined competition in the provision of Commercial Mobile Radio Services (CMRS), this year's report integrated CMRS into the broader mobile ecosystem, including mobile voice, messaging, and

[5] Schools and Libraries Universal Service Support Mechanism, A National Broadband Plan for Our Future, CC Docket No. 02-06, GN Docket No. 09-51, Sixth Report and Order, FCC 10-175 (E-Rate Order), Released September 28, 2010.

broadband services. Among its findings were that 90 percent of Americans had a mobile wireless device, providers continue to invest significant capital in networks despite the economic downturn, and there appears to be increasing concentration in the mobile wireless market.

The Commission approved the transfer of 4.8 million lines in primarily rural and smaller-city areas to Frontier Communications Corp. from Verizon Communications, Inc. This transaction included significant deployment commitments from Frontier to bring broadband to millions of consumers, small businesses, and anchor institutions in 14 states across the West, Midwest, and South. FCC staff also began consultations with staff of the Antitrust Division of the Department of Justice as to how the two agencies can apply their different statutory standards to wireless merger divestitures in a more coordinated manner.

Access to communications services is vital for those citizens whose disabilities make it difficult to utilize 21st century technology. The FCC took important steps to ensure that the latest wireless phones are hearing aid-compatible, expanding access to mobile networks and services for the eight million Americans who use hearing aids. The Commission clarified that its hearing aid compatibility rules cover customer equipment that contains a built-in speaker and is designed to be typically held to the ear. The Commission also adopted a Policy Statement that emphasizes to developers of new technologies the necessity of considering and planning for hearing aid compatibility at the earliest stages of the product design process. By focusing on the development stage, innovators and entrepreneurs can account for compatibility issues before their first device is ever produced. Actions were taken to sustain the Video Relay Service (VRS) for persons with hearing or speech disabilities and protect it from the waste, fraud and abuse that have plagued the program and threatens its long-term viability. VRS allows persons with these disabilities to use American Sign Language to communicate with friends and family and to conduct business in near real time.

Along with access, affordability of communications services is a primary concern of consumers. During FY 2010, the FCC conducted a survey on the consumer mobile experience. The survey indicated that 30 million Americans, one in six mobile users, have experienced “bill shock,” a sudden increase in their monthly bill that is not caused by a change in service plan. It also shows that nearly half of cell phone users who have plans with early termination fees (ETFs), and almost two-thirds of home broadband users with ETFs, don’t know the amount of the fees for which they are accountable. In response to the results, the FCC’s Consumer and Governmental Affairs Bureau launched an initiative seeking input on ways to alert consumers about potential high charges before they add up.

The FCC proposed revisions to its rules under the Telephone Consumer Protection Act to further empower residential telephone subscribers to avoid unwanted telephone solicitations. The proposals would require sellers and telemarketers to obtain written consent from recipients before making prerecorded telemarketing calls, commonly referred to as “robocalls,” even when the caller has an established business relationship with the consumer. Additionally, the FCC proposal makes it easier to opt out of receiving robocalls.

Enforcement of the FCC’s rules provides consumers with confidence that they are being protected from fraudulent and misleading practices. In May 2010, in response to an Enforcement Bureau investigation, the FCC proposed a forfeiture of $1.48 million against Silv Communication for “slamming” violations, changing consumers’ telecom carriers without proper authorization. The Commission found that Silv committed 25 slamming violations, and concluded that the volume of complaints against Silv reflected a systemic problem meriting a substantial penalty.

SPECTRUM

Efficient and effective use of non-federal spectrum domestically and internationally promotes the growth and rapid deployment of innovative and efficient communications technologies and services.

Making additional spectrum available for broadband is critical to driving billions of dollars in private investment, fueling world-leading innovations, creating millions of new jobs, and enabling endless new products and services that can help improve the lives of all Americans. To promote mobile innovation and investment, the National Broadband Plan recommended that the Commission make 500 megahertz of spectrum available for broadband use in the next 10 years, including 300 megahertz for broadband use in the next five years. The Commission adopted several items in FY 2010 to facilitate this additional spectrum. It adopted rules that will make available 25 megahertz of spectrum for mobile broadband service in much of the United States by opening the Wireless Communications Service to mobile operations. The Commission initiated a proceeding to make 90 megahertz of prime spectrum by promoting flexible use of Mobile Satellite Service bands. Steps were also taken to free up vacant airwaves between TV channels, called "white spaces," to unleash a host of new technologies such as "super Wi-Fi" and myriad other diverse applications. This is the first significant block of spectrum made available for unlicensed use in more than 20 years.

The FCC is committed to greater international engagement and cooperation in an interconnected world. Preparations are taking place for the 2012 World Radiocommunication Conference (WRC-12). Preliminary views and proposals are being drafted and discussed within informal working groups and between the FCC, State Department, and the National Telecommunications and Information Administration. These negotiations will lead to recommendations that become part of U.S. positions and draft proposals and form the basis for discussions at bilateral, regional, and international meetings in preparation for WRC-12. The FCC also continues to strongly advocate for U.S. spectrum interests internationally, particularly in cross-border efforts between the U.S. and Canada and the U.S. and Mexico to protect American communications licensees and consumers against interference.

In January 2010, after a 7.0 magnitude earthquake struck Haiti, the FCC announced a series of actions to assist Haiti in its recovery. The FCC's actions included:

- Coordinating with the U.S. Agency for International Development on Haitian Relief and Restoration Efforts on telecommunications matters in Haiti;
- Reaching out to contacts in industry and the international community to determine the status of communications services in Haiti, and between Haiti and other countries;
- Working with federal partners, including the National Communications System, to coordinate efforts, including identification of the status of communications, determination of priority needs for temporary communications and restoration of existing systems, as well as related needs such as fuel and technical expertise;
- Working with the State Department on issues related to importation and operation of emergency communications equipment in Haiti; and
- Taking steps to increase available satellite capacity over Haiti.

In order to develop and advance an agenda aimed at bringing the benefits of a modern communications infrastructure to consumers in all Native communities, the FCC established an Office of Native Affairs and Policy within the Consumer and Governmental Affairs Bureau. The office will work to promote the deployment and adoption of communications services and technologies throughout Tribal Lands and Native communities by, among other things, ensuring robust government-to-government consultation with Tribal governments and increased coordination with Native organizations.

MEDIA

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

Early in the year, the FCC launched an initiative on the future of media and the information needs of communities in the digital age. This initiative is examining the changes underway in the media marketplace, analyzing the full range of future technologies and services that will provide communities with news and information in the digital age, and, as appropriate, will make policy recommendations to the FCC, other government entities, and other parties. The FCC has held workshops and solicited comments from the public.

The Commission acted to promote innovation and consumer choice in the video device marketplace by issuing a Notice of Inquiry and a Further Notice of Proposed Rulemaking to seek to create a competitive retail market for navigation devices for use with multichannel video programming distributors (MVPD), and to propose changes to the current CableCard system to make it more consumer-friendly while a new technology approach is being developed. Consumers are increasingly accessing video from multiple sources, including MVPD services, the Internet, DVDs, and over-the-air broadcasting. The FCC is looking to foster a more competitive marketplace for navigation devices and to address calls for a standardized interface that enables smart video devices to bring video from all of these sources together for ease of selection, recording, and viewing. The service provider would be free to innovate within its network to improve its services without requiring replacement of the consumer's home devices, and a consumer could switch from one provider to another and continue to use the same smart video devices.

Children live in a dramatically different media environment from the one their parents and grandparents grew up in decades ago. From television to mobile devices to the Internet, electronic media today offer an array of opportunities to access educational content, communicate with family and peers, and acquire the skills and technological literacy necessary to compete in a global economy. However, digital media can also pose risks of harm to children, including exposing them to exploitative advertising, inappropriate content, and cyber bullying. The Commission released a Notice of Inquiry asking how children can be served and protected and parents can be further empowered in the new digital media landscape. Chairman Genachowski announced the FCC's Children's Agenda for Digital Opportunity to help children and empower parents. The FCC also launched ***Parents' Place***, a new website that provides parents with the tools and information they need to positively shape their children's experiences in the complex media landscape. It can be found at www.fcc.gov/parents.

PUBLIC SAFETY AND HOMELAND SECURITY

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

One of the FCC's main missions is to ensure continuous operations and reconstitution of critical communications systems and services during and following emergencies. To facilitate this mission, the FCC established its new Emergency Response Interoperability Center (ERIC) under the Public Safety and Homeland Security Bureau. ERIC's primary mission is to lead the development of a technical and operational framework that will support and foster nationwide operability and interoperability in wireless broadband communications for America's first responders. The ERIC will serve as the driving force for the development of standards that will bring true interoperability to public safety broadband networks nationwide. As broadband standards and technology evolve, the ERIC will adopt and implement: technical requirements and procedures for ensuring a nationwide level of interoperability; mechanisms to address operability, roaming, priority access, gateway functions and interfaces, and interconnectivity of public safety broadband wireless networks; and authentication and encryption requirements for common public safety broadband applications and network usage.

Enhancing the cyber security of the nation's infrastructure is critical to the proper functioning of communications networks serving America's financial institutions, national energy grid, medical institutions, educational system, and public safety. Yet, broadband communications networks are susceptible to malicious attack. Despite the increasing threat of cyber attacks, many communications end-users do not consider cyber security a priority. The Commission adopted a Notice of Inquiry seeking public comment on the proposed creation of a new voluntary cyber security certification program that would encourage communications service providers to implement a full range of cyber security best practices. This serves as a first step to implementing a comprehensive roadmap to help counter cyber attacks and better protect America's communications infrastructure.

The Commission launched an inquiry on the ability of existing broadband networks to withstand significant damage or severe overloads as a result of natural disasters, terrorist attacks, pandemics or other major public emergencies. Although core broadband networks are generally presumed to be quite resilient, there may be weaknesses closer to the network edge. Accordingly, the inquiry seeks comment, analysis and information on the present state of the resiliency and redundancy of broadband networks to withstand physical damage and severe network overload.

The Commission adopted an Order prohibiting the further distribution and sale of devices that operate in the 700 MHz frequency. This action helps clear the 700 MHz band to enable the rollout of communications services for public safety and the deployment of next generation 4G wireless devices. The FCC also granted conditional approval of 21 petitions filed by cities, counties and states that sought waivers to move forward with the construction of regional or statewide interoperable wireless broadband networks in the 700 MHz public safety broadband spectrum. The Commission required these broadband networks to be deployed under a common interoperability framework in coordination with the ERIC. This common framework will ensure that all networks being deployed are technically compatible and fully interoperable.

The FCC released two comprehensive white papers that build on the National Broadband Plan recommendations to create an economically viable, technically sound, and robust interoperable public safety wireless broadband network across America. *A Broadband Network Cost Model: The Basis for Public Funding Essential to bringing Nationwide Interoperable Communications to America's First Responders* offers a detailed analysis of how the FCC's plan for creation and funding of the network would meet public safety's needs for accessibility, reliability, and affordability, while creating substantial savings for the nation in capital and operating expenditures over a 10-year period. The plan would also ensure true interoperability for public safety across the nation, stretching beyond large cities and metropolitan areas and into rural America. *The Public Safety Nationwide Interoperable Broadband Network, A New Model For Capacity, Performance and Cost* shows that 10 MHz of dedicated spectrum currently allocated to public safety will provide the capacity and performance necessary for day-to-day communications and serious emergency situations. One study cited in the white paper shows that 10 MHz of spectrum can yield the same capacity as over 160 MHz if the correct technology, architecture, and devices are used.

The Commission took action to help strengthen and improve the ability of Public Safety Answering Points (PSAPs, or 9-1-1 call centers) to quickly locate wireless 9-1-1 callers and dispatch emergency responders to assist them during emergencies. The FCC requires wireless carriers to provide reliability data on each 9-1-1 call upon the request of a PSAP, which will improve the ability of public safety personnel to assess the accuracy of location information. Most importantly, the Commission's action will help save lives by enabling emergency response personnel in many places to reach people who call 9-1-1 from mobile devices sooner.

MODERNIZE THE FCC

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

The FCC made tremendous strides during FY 2010 to become more efficient, effective, and accountable to the American people. It launched Reboot.FCC.gov (http://reboot.fcc.gov/), the first-ever Web site dedicated to soliciting public input on ways to improve citizen interaction with the FCC. Reboot.FCC.gov highlighted key elements of FCC reform for public discussion and feedback. As part of a long-overdue redesign of the FCC Web site, the agency solicited ideas on how best to streamline and improve the experience for all site visitors. Because data underlies all agency proceedings, the FCC launched FCC.gov/data (http://reboot.fcc.gov/data/), an online clearinghouse for the Commission's public data, looking for additional ways increase openness, transparency, efficiency and public oversight. The agency reevaluated how citizens engage in government and explored new ways to increase public participation through the use of new media tools. The FCC enhanced its Electronic Comment Filing System and is working toward creating a Consolidated Licensing System to include all radio services.

The Commission proposed revisions to its rules as part of its larger effort to reform and transform the agency into a model of excellence in government. Changes were proposed to the FCC's procedural and organization rules concerning reconsideration of agency proceedings and case management. The proposals are designed to enhance efficiency and reduce backlogs, make it easier for interested persons to follow and participate in the process, and reduce confusion by the public about certain deadlines. The Commission also proposed changes to its rules governing disclosure of communications with Commission staff and decision makers when all parties to a proceeding are not present (so-called *ex parte* communications). The proposed rule changes are designed to make the Commission's decision-making processes more open, transparent, fair, and effective.

The FCC launched its Data Innovation Initiative to modernize and streamline how it collects, uses, and disseminates data. The FCC's Wireline, Wireless, and Media Bureaus released public notices seeking input on what current data collections should be eliminated, what new ones should be added, and how existing collections can be improved. The public notices also included inventories of the Bureaus' current data collection. As part of this initiative, the Commission also proposed rule changes to complete the transition to electronic filing of tariffs, which disclose the rates, terms and conditions set by certain carriers. Non-dominant carriers would file their tariffs using the FCC's Electronic Tariff Filing System, and tariff filings would be standardized to ease review by the public and the FCC. On-line filing of tariffs will afford the public and the FCC with immediate access to new tariffs filed by carriers, providing more opportunity for review and comment. The change will also reduce the burden on carriers and FCC staff associated with filing and administering paper records.

As part of the initiative, the FCC also launched a suite of new tools designed to unlock FCC data and drive innovation across the public and private sectors. The suite of tools includes a number of APIs (Application Programming Interface), interfaces that enable communication between independent databases, for use by developers across a broad range of industries, including federal, state, and local government. The FCC also announced the creation of a developer community (http://www.fcc.gov/developer) designed to help drive future releases through feedback and collaboration. An example of the APIs released is License View which provides snapshots such as the number of licenses across different services, how many licenses different entities have, and how many licenses are up for renewal in the near future. The APIs represent a step toward reform of the licensing systems and improvement in how the FCC makes licensing information available to the public.

The Federal Communications Commission is committed to helping consumers through information, complaint mediation, and regulatory policy. Consumers deserve clear, complete information to help them make the best choices in communications services. To assist consumers, the FCC launched a new, easy-to-use, Consumer Help Center that puts them within one click of all the information they want from the FCC. The portal at www.fcc.gov/consumers allows consumers to learn about different issues in telecommunications, makes it easy for consumers to find out what's going on at the FCC, provides tips for making the best choices in purchasing communications devices and services, allow consumers to have their voices heard by filing comments on issues that interest them, and provides them with a means to file a complaint when there are problems.

The FCC's Consumer Task Force initiated a *Wireless World Travel Week* to coincide with the beginning of summer and a busy travel season. Americans make over 60 million international trips each year, and many take their mobile phones with them. Throughout that week, the FCC and wireless companies offered tips to help travelers save money on international wireless use.

The FCC was recognized as the "most improved" agency across the entire federal government according to the 2010 OPM Viewpoint Employee Satisfaction Survey released by the Office of Management and Budget. The survey results reflect the work being done throughout the agency to make the FCC a model of excellence in government, including creating new opportunities for employees to provide feedback, improving employee communication through technology and new media, and focusing on leadership development and opportunities for employees.

Management Assurances

In accordance with OMB Circular A-123, the Commission maintains internal control for financial and management reporting that provides reasonable assurance that the financial statements fairly present information related to assets, liabilities, and net position and do not contain material misstatements. Transactions are executed in accordance with budgetary and financial laws, consistent with the Commission's statutory requirements, and are recorded in accordance with Federal accounting standards.

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

The Commission received an unqualified opinion on its financial statements in FY 2008 and FY 2009. In conjunction with both of those opinions, the independent auditors provided the Commission with reports on internal control and compliance with laws and regulations. The independent auditor's report identified one material weakness in internal controls in FY 2008. During FY 2009, the Commission closed this material weakness, relating to the Universal Service Administrative Company (USAC), which administers the Universal Service Fund (USF) under the Commission's oversight. The material weakness occurred due to USAC's misinterpretation of a Commission instruction. As a result of this misinterpretation, USAC did not properly implement a change to an accepted accounting method. The Commission implemented appropriate corrective action by evaluating the processes that led to the material weakness. The Commission continues to work with USAC to insure this or similar breakdowns do not occur in the future, and used the material weakness as an opportunity to continue to build on its strong oversight of USAC and the USF.

The FY 2009 report identified no material weaknesses in internal controls but included two significant deficiencies in the following areas: 1) the financial reporting process, and 2) some information technology control deficiencies. During FY 2010, the FCC worked to remediate any risk associated with these findings and to take corrective action to close them. First, with regard to addressing the significant deficiency for the financial reporting process related to the Commission and its reporting components, the Commission has taken significant steps throughout FY 2010 to resolve the auditors' findings and improve the performance of its financial reporting process through the implementation of a new core financial management system. The Commission's new core financial system was launched in October 2010 and the Commission is currently working to efficiently deploy all functionality of that system. Also in FY 2010, the Commission continued to work closely with its reporting components in their efforts to modernize their financial systems. Second, with respect to the significant deficiency related to information technology control weaknesses, the Commission has been working to fully assess the auditors' recommendations and to develop corrective action plans. Some findings are already in the process of being addressed (e.g., the certification and accreditation of key information technology systems). During FY 2011, the Commission will make every effort to complete corrective action for each of the recommendations associated with these findings so as to avoid any repeat findings in this area.

In both fiscal years the Commission also received findings of non-compliance with the Federal Managers' Financial Integrity Act (FMFIA) and in FY 2008 a finding of non-compliance with the Debt Collection Improvement Act of 1996 (DCIA). The Commission has since taken the necessary action to close any non-compliance with DCIA. With respect to the instances of noncompliance with FMFIA, the Commission and its reporting components are committed to implementing financial systems that are fully integrated, and that provide efficient and effective processing and reporting of accounting transactions and financial information. As noted above, the Commission's new core financial system was launched in October 2010 and the Commission is currently working to efficiently deploy all functionality of that system. Also in FY 2010, the Commission continued to work closely with its reporting components in their efforts to modernize their financial systems. The Commission continues to work diligently on closing all findings from prior year audits and has made significant progress on resolving most recommendations presented.

During FY 2010, the Commission has continued its efforts to develop a baseline on internal control as it works within the requirements of OMB Circular A-123. The Commission's Senior Management Council continues to meet regularly to strengthen its efforts and efficiencies over Commission operations. During the current fiscal year, the Commission also continued to work with two of its reporting components, USAC and NECA, to implement an OMB Circular A-123 framework and take the appropriate steps to strengthen their internal control frameworks. Furthermore, the Commission prepared three additional risk assessments of programs and operations under its oversight; 1) the National Broadband Plan, 2) the Nation-wide Broadband Map, and 3) the Commission's procurement process. The Commission continues to receive unqualified opinions over its financial statements; however, the Commission will continue to focus its efforts to make its internal controls over operations more effective and efficient as it moves forward.

MANAGEMENT ASSURANCES – FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982 (FMFIA)

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

Statement of Assurance

The Commission's management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of FMFIA. The Commission conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB's Circular A-123, *Management's Responsibility for Internal Control.* Based on the results of this evaluation, the Commission can provide reasonable assurance that its internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2010 were operating effectively and no material weaknesses were found in the design or operation of internal controls. In addition, with the exception of the instances of non-conformances with government-wide financial systems requirements discussed below, the Commission can provide reasonable assurance that its financial management systems meet the objectives of FMFIA.

Julius Genachowski
Chairman
November 15, 2010

Status of Internal Controls – Section 2 of FMFIA

During FY 2010, the Commission continued its efforts to improve and strengthen its internal controls over operations and financial reporting. In addition to its own risk assessments over its operations, the Commission worked with USAC and NECA to strengthen their frameworks on internal controls to comply with OMB Circular A-123. Throughout FY 2010, the Commission continued to work diligently to close out audit findings from previous audits. The Commission was able to close out 29 audit findings in FY 2010. The Commission continues to tighten its controls over operations and improve its policies and procedures where necessary.

Despite recent success, the Commission needs to finish the work at hand. The fiscal year 2010 audit report identifies two significant deficiencies that still need to be resolved. The primary areas of concern relate to the financial reporting process at the Commission and its reporting components, and information technology controls.

Financial Management Systems – Section 4 of FMFIA

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

As previously noted by the Commission's auditor, the Commission's financial systems do not substantially conform to government-wide requirements. Specifically, the Commission lacks a fully integrated financial system. The Commission is working through this instance of non-conformance while performing A-127 reviews of its financial systems.

Because the financial management systems of the Commission and its reporting components are becoming obsolete, the Commission and its reporting components have started the process of deploying new core financial management systems. The Commission's new core financial system was launched in October 2010 and the Commission is currently working through the process to fully launch all functionality of its new system. The Commission continues to work with its reporting components to launch their new financial systems.

Financial Discussion and Analysis

UNDERSTANDING THE FINANCIAL STATEMENTS

The Commission is committed to excellence and accuracy in financial reporting, transparency and financial management. Preparing the Commission financial statements is part of the goal to improve financial management and provide accurate and reliable financial information that is useful for assessing performance and allocating resources. The Commission's management is responsible for the integrity and objectivity of the information presented in the financial statements. For five consecutive years the financial statements have received an unqualified audit opinion from the external auditors.

The principal financial statements have been prepared to report the financial position and results of operations of the Commission. The statements have been prepared from the books and records of the Commission, in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities. The financial statements and notes are presented in accordance with *OMB Circular No. A-136, Financial Reporting Requirements,* dated September 29, 2010.

This section presents a summary analysis of key financial statement core business activities. The principal statements include a Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources and Consolidated Statement of Custodial Activity. This section also summarizes the financial activity and net position of the Commission. The complete financial statements are included in section 2 of this report.

A summary of the Commission's major financial activities in FY 2010 and FY 2009 is presented in the table below. This table represents the resources available to use (assets) against the amount owed (liabilities) and the amount that comprises the difference (net position). The net cost represents the gross cost of operating the Commission's lines of business less earned revenue. Budgetary resources represent funds made available to the Commission.

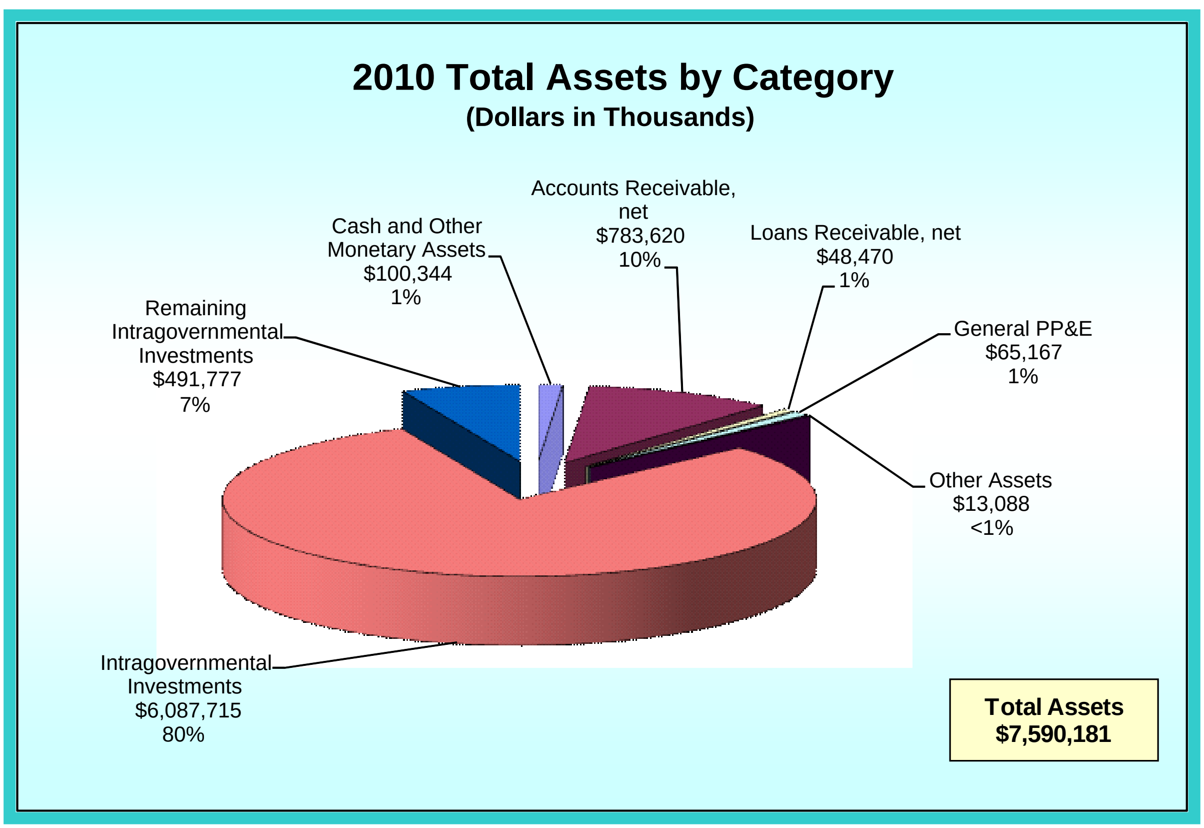
CHANGES IN FINANCIAL POSITION IN FY 2010					
Consolidated					
(Dollars in Thousands) **Net Financial Condition**		**2010**		**2009**	**Percentage Change in Financial Position**
Intragovernmental					
Fund Balance with Treasury	$	457,368	$	359,735	27%
Investments		6,087,715		6,016,693	1%
Accounts Receivable		571		889	-36%
Other		33,838		400,451	-92%
Total Intragovernmental	$	6,579,492	$	6,777,768	-3%
Cash and Other Monetary Assets		100,344		68,852	46%
Accounts Receivable, net		783,620		763,843	3%
Loans Receivable, net		48,470		83,589	-42%
General Property & Equipment, Net		65,167		49,616	31%
Other Assets		13,088		7,735	69%
Total Assets	**$**	**7,590,181**	**$**	**7,751,403**	**-2%**
Intragovernmental:					
Debt	$	87,726	$	46,484	89%
Other		251,972		117,921	114%
Total Intragovernmental	$	339,698	$	164,405	107%
Accounts Payable		120,477		79,733	51%
Deferred Revenue		132,386		528,234	-75%
Prepaid Contributions		74,915		57,670	30%
Accrued Liabilities for Universal Service		622,400		591,512	5%
Other		49,408		62,778	-21%
Total Liabilities	**$**	**1,339,284**	**$**	**1,484,332**	**-10%**
Unexpended Appropriations	$	21,183	$	44,000	-52%
Cumulative Results of Operations		6,229,714		6,223,071	0%
Total Net Position	**$**	**6,250,897**	**$**	**6,267,071**	**0%**
Net Cost	**$**	**8,961,165**	**$**	**8,194,593**	**9%**
Budgetary Resources	**$**	**13,612,371**	**$**	**12,493,760**	**10%**

The following is a brief description of the nature of each required financial statement and its relevance, including a description of certain significant balances on Commission operations.

*__Consolidated Balance Sheet__***:** The Consolidated Balance Sheet presents the total amounts available for use by the Commission (total assets) and the amounts owed by the Commission (total liabilities). Investments and Accounts Receivable represent over 90% of total assets as of September 30, 2010.

The graph below presents the total assets of the Commission for September 30, 2010. The large Investments balance of $6,088 million mainly results from carryover in the USF Schools and Libraries and Rural Healthcare programs ($5,733 million) and carryover in the Telecommunications Relay Service program ($355 million) that have grown since the programs' inception as a result of annual contributions that have exceeded annual distributions.

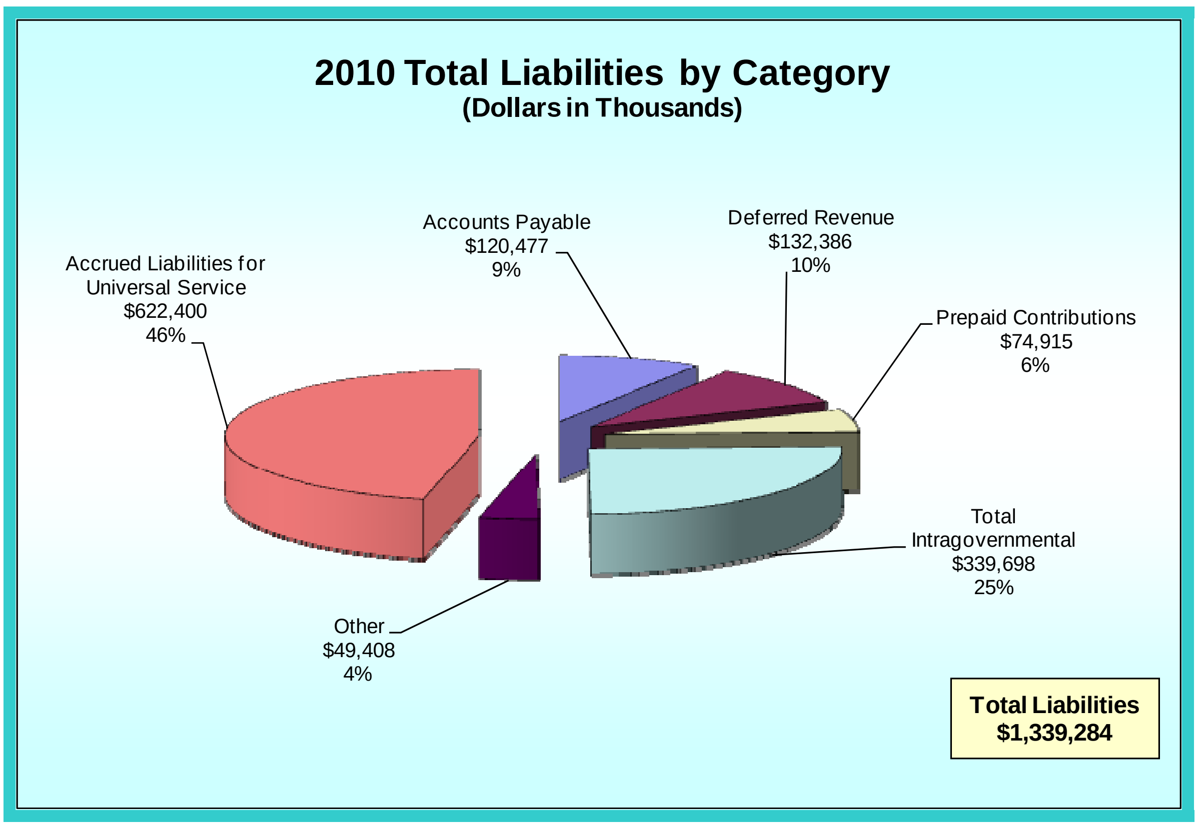
The Accounts Receivable balance of $784 million is primarily composed of USF receivables totaling $775.6 million.



The graph below presents the total liabilities of the Commission for September 30, 2010. The Commission's most significant liabilities are Deferred Revenue of $132 million and Accrued Liabilities for Universal Service of $622 million, which accounted for 56% of total liabilities as of September 30, 2010.

The Deferred Revenue balance includes $33.8 million in winning bids for auction #73 and $33.2 million for other auctions where the corresponding licenses have not been granted. As these licenses are granted the revenue will be recognized on the Statement of Custodial Activity by the Commission.

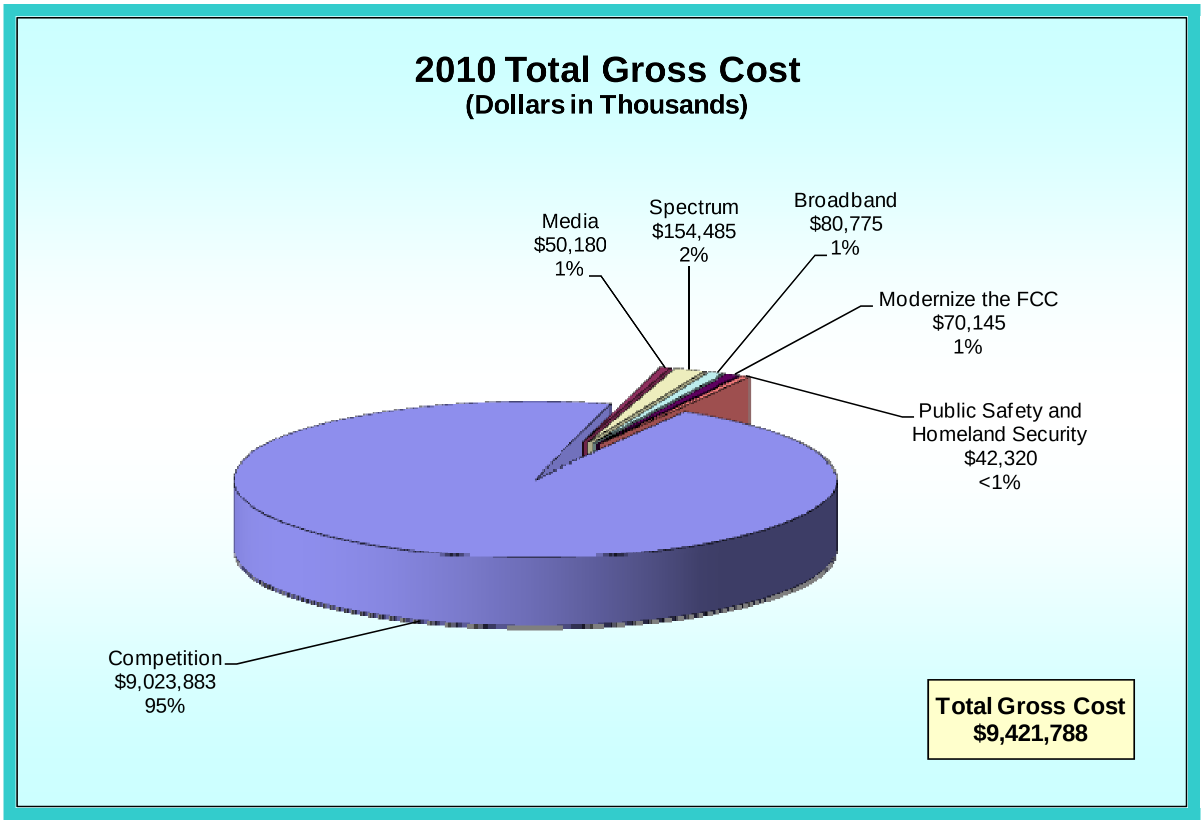
The Accrued Liabilities for Universal Service represent the expected October (FY 2011) payments for the Telecommunications Relay Service Program and the Universal Service Fund High Cost and Low Income Programs.



*<u>Consolidated Statement of Net Cost</u>***:** This statement presents the annual cost of operating Commission programs. Gross cost less any offsetting revenue for each program is used to arrive at the net cost of specific program operations. The Consolidated Statement of Net Cost is aligned with the six strategic goals of the Commission: Broadband, Competition, Spectrum, Media, Public Safety and Homeland Security, and Modernize the FCC. Net costs for each goal are presented individually. The program costs for the USF, TRS and NANP are included within the Competition strategic goal. The Commission's subsidy costs for the Spectrum Auction Loan

Program are included with the Spectrum strategic goal. As a result of the accounting for these activities, the cost for these goals may be significantly higher than the cost of the four other goals. Contributions received for the USF and TRS programs are shown on the Statement of Changes in Net Position and do not directly offset the costs of these programs on the Statement of Net Cost.

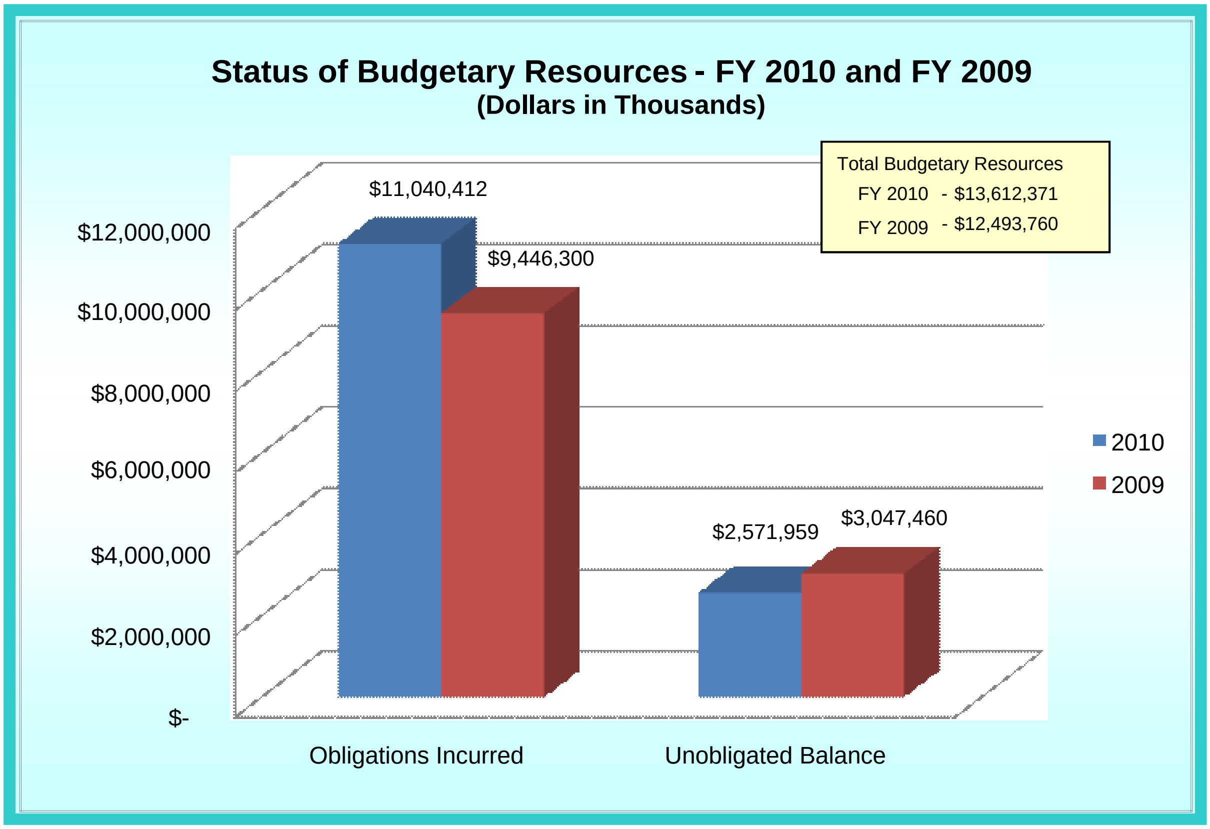
The graph below presents the total gross costs of each Commission program.



<u>Consolidated Statement of Changes in Net Position</u>: This statement presents the cumulative net results of operations and total unexpended appropriations in order to understand the nature of changes to the net position as a whole. The Commission's Net Position decreased to $6,251 million or a net decrease of $16 million or less than 1% in FY 2010.

<u>Combined Statement of Budgetary Resources</u>: This statement provides information on how budgetary resources were made available to the Commission for the year and the status of those budgetary resources at the end of the year. The Commission receives most of its budgetary authority from appropriations. Budgetary resources consist of the resources available to the Commission at the beginning of the year, plus appropriations, spending authority from offsetting collections, and other budgetary resources received during the year. The Commission had $13.6 billion in budgetary resources of which $11.0 billion was incurred and $2.6 billion remained unobligated.

The chart below presents the status of budgetary resources comparatively between FY 2010 and FY 2009.



*__Consolidated Statement of Custodial Activity__***:** The Commission recognized $415 million of custodial revenue during FY 2010. From this balance $214 million was transferred to Treasury and other entities, primarily NTIA who received $197 to fund efforts under the Digital Television Transition and Public Safety Act of 2005. The $116 increase in amounts yet to be transferred is a direct result of additional collections during FY 2010 for auctions, fines & forfeitures, and penalties that have not been transferred to Treasury as of September 30, 2010. The remaining Auctions revenues were retained by the Commission.

OTHER KEY FINANCIAL STATEMENT HIGHLIGHTS

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

The Commission's FY 2011 subsidy reestimate was completed to reflect the actual loan performance through June 30, 2010 and projected performance through September 30, 2010. The reestimate resulted in a net upward adjustment (increase in the subsidy cost), including interest on the reestimate, totaling $40 million in the Spectrum Auction program.

This reestimate is reported in the Commission's FY 2010 financial statements, but will not be reported in the budget until FY 2011. For more details, see financial statement Footnote 7 in section 2.

Regulatory Fee Collections

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

Regulatory fees are collected and warranted back to the Treasury to offset the Commission's appropriations for the current fiscal year. In FY 2010, the Commission was required to collect $335.8 million in regulatory fees. The Commission's actual collections were slightly over $341.5 million.

Possible Future Effects of Existing Events and Conditions

The last active loans in the Commission's spectrum auction loan program were repaid during FY 2007. In conjunction with this event, the Commission generated the FY 2010 and FY 2011 subsidy reestimates using a balances approach designed to align the Commission's outstanding debt to Treasury with the projected remaining cash flows for the program. The generation of the remaining cash flows is dependent upon the outcome of bankruptcy proceedings, settlement efforts, and Treasury collection efforts on remaining loans, which are all either in a bankruptcy or default status.

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

Limitations on the Financial Statements

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

The statements should be read with the realization that they are for a component of the United States (U.S.) Government, a sovereign entity.

2. Financial Section

Message from the Chief Financial Officer

I am pleased to present the Commission’s financial statements for fiscal year (FY) 2010 and to report that the Commission’s auditors issued an unqualified opinion on each of the Commission’s financial statements for FY 2010. Furthermore, I am proud to say that this is the fifth straight fiscal year the Commission has received an unqualified opinion. Five straight years of unqualified opinions is the longest consecutive period of “clean” audit opinions that the Commission has received in the twelve fiscal years that its financial statements have been audited, dating back to FY 1999. The Commission is proud of the work of its staff over the past five fiscal years to obtain and maintain an unqualified opinion.

Throughout FY 2010, the Commission worked diligently on closing audit findings from previous audits. The Commission as a whole closed 29 audit findings during FY 2010, and has closed more than 510 audit findings in the last five fiscal years. As a part of this effort, the Commission made progress on resolving matters raised by its auditors in their FY 2010 audit report. The Commission closed findings relating to its information technology control deficiencies and made progress in resolving findings related to its financial management systems by continuing with the development of a new core financial system, and reviewing its current feeder systems as required by Office of Management and Budget Circular A-127.

Significantly, for FY 2010 the Commission’s independent auditor did not report any material weaknesses for the Commission or its reporting components. Despite these successes, work remains here at the Commission. The FY 2010 audit report points out two significant deficiencies related to internal controls and notes one instance of non-compliance that still needs to be resolved. The primary areas of concern relate to financial reporting processes, information technology controls, and compliance with the Federal Managers’ Financial Integrity Act.

One of the Commission’s greatest challenges to resolving the auditors’ findings and improving the performance of its financial reporting process is to implement a new core financial management system. In October 2010 we made significant strides to resolve this finding by launching our new core financial management system. Before launching our new system we trained all Commission staff involved in processing financial transactions on the new system to ensure that the Commission maintains its strong culture of efficient and accurate financial management of Commission funds. It will be a challenge in the upcoming year to fully deploy our new core financial management system and to efficiently maximize the re-engineered processes to provide for stronger controls and more accurate and timely data.

Intertwined with the Commission’s challenge of implementing its own new core financial management system are the Commission’s efforts to work closely with its reporting components in their efforts to implement new core financial systems. During FY 2011, the Commission plans to continue to work closely with its reporting components in their efforts to modernize their financial systems.

Finally, the Commission is committed to minimizing the risk of improper payments and to reducing improper payments to the customers and beneficiaries of its reporting components, the Universal Service Fund and the Telecommunications Relay Service Fund. The Commission continues to make improvements to the management, administration and oversight of these funds. The Commission has established a dedicated team to oversee these Funds, and has initiated a robust audit program to detect improper payments from these funds.

I look forward to FY 2011 and making every effort to continue to strengthen the Commission's and its reporting components' internal control environments and to improve the effectiveness of the Commission's and its reporting components' financial operations.

Mark Stephens
Chief Financial Officer
November 15, 2010

OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: November 12, 2010

TO: Julius Genachowski, Chairman

FROM: David L. Hunt DLH WKG
Acting Inspector General

SUBJECT: Audit of the Federal Communications Commission's Financial Statements for Fiscal Year 2010

In accordance with the Accountability of Tax Dollars Act of 2002 (Pub. L. 107-289), the Office of Inspector General (OIG) engaged the independent certified public accounting firm of KPMG LLP to audit the fiscal year 2010 financial statements of the Federal Communications Commission (FCC) in accordance with generally accepted government auditing standards.

KPMG LLP's reports include an opinion on FCC's financial statements, report on internal control over financial reporting, and report on compliance and other matters. In summary, KPMG LLP found that:

- The financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.
- There are no material weaknesses in internal control.
- There are two significant deficiencies related to FCC's financial reporting and information technology controls.
- There was one instance of noncompliance with laws and regulations related to the Federal Managers' Financial Integrity Act.

The OIG reviewed KPMG LLP's reports and related documentation and made necessary inquires of KPMG's representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express an opinion and we do not express an opinion on the FCC's financial statements, conclusions about the effectiveness of internal controls, or conclusions on compliance with laws and regulations. KPMG LLP is wholly responsible for the attached report dated November 12, 2010 and the conclusions expressed therein.

However, our review, while still ongoing, disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted government auditing standards.

cc: Managing Director
Chief of Staff
Chief Financial Officer

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report

Managing Director
Federal Communications Commission

Inspector General
Federal Communications Commission

We have audited the accompanying consolidated balance sheets of the Federal Communications Commission (FCC) as of September 30, 2010 and 2009, and the related consolidated statements of net cost, changes in net position, custodial activity, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. These consolidated financial statements are the responsibility of the FCC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FCC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Federal Communications Commission as of September 30, 2010 and 2009, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis, Other Accompanying Information, and Required Supplementary Information is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 12, 2010, on our consideration of the FCC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audits.

KPMG LLP

November 12, 2010

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Internal Control Over Financial Reporting

Managing Director
Federal Communications Commission

Inspector General
Federal Communications Commission

We have audited the consolidated balance sheets of the Federal Communications Commission (FCC) as of September 30, 2010 and 2009 and the related consolidated statements of net cost, changes in net position, custodial activity, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 12, 2010.

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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the FCC is responsible for establishing and maintaining effective internal control. In planning and performing our fiscal year 2010 audit, we considered the FCC's internal control over financial reporting by obtaining an understanding of the FCC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FCC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FCC's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the third paragraph of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2010 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in Exhibit I that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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The FCC's responses to the internal control findings identified during our audit are presented in the Agency Financial Report. We did not audit the FCC's response and, accordingly, we express no opinion on it.

Exhibit II presents the status of prior year's findings and recommendations.

We noted certain additional matters that we have reported to management of the FCC in a separate letter dated November 12, 2010.

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

KPMG LLP

November 12, 2010

EXHIBIT I

SIGNIFICANT DEFICIENCIES

Financial Reporting Process

The FCC consolidated financial statements present the financial results of the following reporting components: The Commission (FCC), the Universal Service Fund (USF), the Telecommunications Relay Services Fund (TRS), and the North American Numbering Plan (NANP). The FCC has oversight responsibilities over the other components. USF, TRS, and NANP are administered by other organizations independent of the FCC. Each component entity is responsible for preparing its trial balance. The FCC's Office of the Managing Director, Division of Financial Operations, is responsible for reviewing the component entities' trial balances before including that financial data in the FCC consolidated financial statements.

FCC reporting component entities' fiscal year 2010 financial systems and processes were not capable of achieving the financial system integration standards set forth within the Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government*. These standards require that the consolidated financial statements be prepared from an accounting system that is an integral part of a financial management system containing sufficient structure, effective internal controls and reliable data. Many of the FCC's significant transactions are tracked on Excel spreadsheets and recorded into the general ledger at a summary level. Significant examples of this include (all amounts in thousands as of 9/30/10):

- Spectrum Auction Activities for FCC – $391,178
- Investment Transactions for USF and TRS – $6,087,715
- Deferred Revenues for FCC – $99,626
- Accounts Payable Transactions for USF – $111,973
- Loans Transactions for FCC – $46,470
- Budgetary Transactions/Entities for FCC, USF and TRS – $9,354,171
- Property Transactions for FCC – $54,396
- On-Top Financial Statement Adjustments - $357,750

Inadequate financial system integration and the use of manual reporting processes increases the risk of potential errors in the consolidated financial statements going undetected by management, and results in non-compliance with GAO guidance. FCC management plans to implement a new financial system for the fiscal year 2011. We will reassess these conditions during our fiscal year 2011 testing.

Recommendations

1. Complete implementation of a financial system that is fully integrated and has the ability to record proprietary and budgetary transactions on a transactional basis and complies with the requirements set forth in the GAO *Standards for Internal Control in the Federal Government*. The system should be flexible to accommodate new accounting requirements issued by FASAB, OMB and Treasury. **(Updated)**
2. Develop a standard set of transaction codes to process all routine transactions and to allow automated, timely, and accurate recording for all recurring entries that are currently entered manually. **(Re-Issued)**
3. Develop an electronic integration between the subsidiary systems and the FCC financial management system to enable FCC component entities to process accounting transactions or report financial data efficiently and effectively. **(Re-Issued)**

Information Technology Controls

As reported in fiscal year 2009, the FCC needs to improve its entity-wide security program. An effective security program embodies the organization's internal control responsibilities with respect to securing its IT infrastructure and services. OMB has defined standards within OMB, Circular No. A-123, *Management's Responsibility for Internal Control*, related to control environment, risk assessment, monitoring, information and communication, and internal control activities. For purposes of financial reporting, management is responsible for developing and maintaining internal control activities that comply with OMB standards to ensure the reliability of financial reporting.

We identified deficiencies in the FCC's control environment, risk assessment, control activities, and monitoring as it relates to securing FCC's information technology infrastructure. The application of IT is pervasive throughout the FCC and as a result these deficiencies may impact the FCC's ability to comply with OMB's internal control objectives for financial reporting. We have previously reported these deficiencies to FCC management in more detail. Each of the sections below summarizes the reported control deficiencies.

Control Environment Findings

OMB requires management to clearly identify areas of authority and responsibility and appropriately delegate the authority and responsibility throughout the agency. We noted that for the first eight months of fiscal year 2010, FCC management had not appointed a Senior Agency Information Security Officer (SAISO) dedicated to planning and overseeing the execution of the FCC's Security Program. In addition, we noted that the FCC had not documented and implemented policies and procedures for directing and overseeing the USAC security program. Currently, the FCC does not consistently exercise and document oversight of USAC's IT Security program although USAC collects and maintains data on behalf of the FCC.

Control Environment Recommendation

The FCC strengthens its control environment by:

4. Documenting and implementing policies and procedures for actively directing and overseeing the information security programs for information systems that collect and maintain FCC data, but are not operated by the FCC, to ensure that they are administered consistent with all relevant FCC, National Institute of Standards and Technology and OMB requirements and instructions. **(Updated)**

Risk Assessment Findings

OMB requires management to identify internal and external risks that may prevent the organization from meeting its objectives. We noted that the FCC had not conducted risk assessments for its information systems in accordance with the guidance from National Institute of Standards and Technology (NIST) Special Publication (SP) 800-30, Risk Management Guide for Information Technology Systems, although the FCC's risk assessment reports cite NIST SP 800-30 as guidance. Specifically, FCC's risk assessment reports did not identify threats, and vulnerabilities identified were largely limited to technical vulnerabilities of the type detected by a vulnerability scan and did not encompass management and operational vulnerabilities. Furthermore, controls to mitigate risks identified in the risk assessments were not planned in system security plans. In addition, we noted that a number of risk assessments for components of the FCC's general support system were outdated. We also noted that risk assessments for two applications that authenticate users outside of the FCC did not map to the required assurance levels in OMB Memorandum 04-

04, E-Authentication Guidance for Federal Agencies, and the required e-authentication controls in NIST SP 800-63, Electronic Authentication Guideline.

Risk Assessment Recommendations

The FCC strengthens its approach to performing risk assessments by:

5. Updating risk assessments at least every three years. **(Re-Issued)**
6. Considering a full range of significant risks and ensuring that control recommendations from risk assessments are used to create or update system security plans. **(Updated)**
7. Documenting e-authentication policies and procedures for ensuring the FCC's compliance with OMB Memorandum 04-04, E-Authentication Guidance for Federal Agencies. **(Re-Issued)**
8. Performing e-authentication risk assessments and updating system security plans to define for each e-government application the relevant authentication level and the required level of e-authentication controls to implement. **(Re-Issued)**

Control Activities Findings

OMB requires internal controls to be in place over information systems in the form of general and application controls. General controls applies to all information systems such as servers, the network and end-user environments, and includes agency-wide security program planning, management, control over data center operations, and system software acquisition and maintenance. Due to the rapid changes in information technology, controls must also adjust to remain effective. Required control activities include policies, procedures and mechanisms in place to help ensure that agency objectives are met. Several examples of such mechanisms include: proper segregation of duties (separate personnel with authority to authorize a transaction, process the transaction, and review the transaction); physical controls over assets; proper authorization; and appropriate documentation and access to that documentation. Based on our procedures performed, we noted the following deficiencies in FCC's general control activities related to the FCC security program, access controls, and change controls:

Security Program

The FCC's controls to monitor and assess systems security had a number of deficiencies. Procedures for completing a security authorization package were in draft form and did not contain detailed requirements and procedures for creating a security authorization package in accordance with NIST guidance. System security plans for several systems did not document controls that mapped to the recommended NIST SP 800-53, Recommended Security Controls for Federal Information Systems, minimum baseline controls. Security assessments of management and operational controls to support the security authorization of the FCC's information systems were not performed. Security assessments of technical controls were incomplete. For the first six months of fiscal year 2010, one major application was in operation without any security authorization and the general support system's security authorization had expired.

Access Controls

The FCC's controls to restrict physical and logical access to FCC systems had a number of deficiencies. Three major applications lacked documented guidance on the assignment of access privileges, including segregation of duties. Controls for limiting physical access to computer rooms were not sufficiently formalized. The FCC's user account management controls were not operating effectively to prevent logical access from being granted to users who should not have access and to remove access from users who no longer needed it. Controls to enforce segregation of duties and to limit privileged access were not operating effectively. The resolution of identified vulnerabilities was not documented. Finally, the FCC's password policies were inconsistently applied.

Change Controls

Access of developers to production was not properly restricted and changes were not consistently tested and approved before their migration to production. Additionally, the FCC could not provide documentation to evidence that system configurations were monitored for unauthorized changes.

Control Activities Recommendations

Security Program

The FCC strengthens its security program oversight and planning by:

9. Documenting system security plans in detail sufficient to plan system security controls for FCC information systems that are identical or equivalent to the NIST SP 800-53 minimum baseline controls. **(Updated)**
10. Updating security authorization packages for FCC information systems and, after planning and successfully testing the necessary IT security controls, re-authorizing information systems for operation. **(Updated)**
11. Revising, finalizing, and implementing procedures for completing a security authorization package, including planning and scoping guidance, and procedures for creating a security authorization package in accordance with NIST guidance and for administering the security authorization program across the Commission. Policies and procedures should require that security assessment testing cover all management, operational and technical controls in accordance with evaluation criteria from NIST SP 800-53a. **(Updated)**

Access Controls

The FCC strengthens its access controls by:

12. For newly hired employees and contractors, limiting logical access to FCC systems pending a favorable result from a preliminary background check. **(Re-issued)**
13. Implementing procedures to help ensure that users are not granted access to FCC information systems without documented approval. **(Updated)**
14. Requiring that all user access be reviewed and recertified by management and promptly revoking access for those users who are found to no longer need access or whose access is not recertified. **(Re-issued)**
15. Documenting the roles and permissions used within major applications. **(Re-issued)**
16. Identifying and documenting conflicting privileges within major applications and documenting procedures to help ensure separation of duties and to address developer access. **(New)**
17. Granting individuals computer room access only after management approval. **(Re-issued)**
18. Documenting and implementing procedures for documenting and tracking vulnerability remediation. **(Re-issued)**
19. Reviewing the scope and applicability of the FCC's password policies, documenting any exceptions to FCC password policies, and wherever applicable, ensuring that password settings are consistent with the FCC's policies. **(Re-issued)**

Change Controls

The FCC strengthens its change and configuration management controls by:

20. Restricting developer access to the production environment. **(Re-issued)**
21. Documenting a change and configuration management policy to require that changes be tested and approved prior to being moved into production. **(Updated)**
22. Implementing a change and configuration management policy by documenting and implementing change control and configuration management procedures for major applications, databases, and infrastructure components. **(Updated)**

Monitoring Findings

OMB requires that monitoring of the effectiveness of internal control should occur in the normal course of business. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. We noted that FCC management did not perform annual security assessment testing of a representative subset of technical, operational and management controls to support its annual Federal Information Security Management Act of 2002 (FISMA) report to OMB and to satisfy FISMA's ongoing monitoring requirements.

OMB also requires that deficiencies found in internal control be reported to the appropriate personnel and management responsible for that area. Deficiencies identified, whether through internal review or by an external audit, should be evaluated and corrected. A systematic process should be in place for addressing deficiencies. The FCC did not provide evidence of tracking and planning for the remediation of IT Security weaknesses. Specifically, neither agency-wide Plans of Action and Milestones (POA&Ms) nor system-level POA&Ms were provided for KPMG's inspection.

Monitoring Recommendations

The FCC strengthens its monitoring controls by:

23. Documenting and implementing procedures that ensure that at least annually, the FCC performs security assessment testing, using the assessment cases provided by NIST SP 800-53a, of a subset of controls to monitor the controls' effectiveness, with all controls being assessed at least once during the three-year authorization cycle. **(Re-issued)**
24. Documenting and implementing procedures for the creation, maintenance, and review of both agency and system-level POA&Ms. The FCC should document, prioritize, track and review at least quarterly all security weaknesses identified by external and internal reviews at the FCC and at outside organizations (e.g., USAC) which meet the FISMA reporting requirement definition of a contractor. Quarterly reviews should include reporting to the CIO. POA&Ms should include resources required to accomplish elements of the plan, any milestones in meeting the tasks, scheduled completion dates for milestones and a current status. When milestones are adjusted, the rationale for adjusting milestones should be documented. **(Updated)**

EXHIBIT II

STATUS OF PRIOR YEAR'S FINDINGS AND RECOMMENDATIONS

As required by *Government Auditing Standards* issued by the Comptroller General of the United States, and by OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, we have reviewed the status of FCC's corrective actions with respect to the findings and recommendations included in the prior year's report on FCC's internal control over financial reporting dated November 12, 2009. The following table provides our assessment of the progress the FCC has made through September 30, 2010 in correcting the significant deficiencies identified in the fiscal year 2009 Independent Auditors' Report.

Significant Deficiencies			
Recommendation Number	**Condition Audit Area**	**Recommendation**	**Current Status**
I. Financial Reporting Process			
1	FCC Entity	Implement a financial system that is fully integrated and has the ability to record proprietary and budgetary transactions on a transaction basis and complies with the requirements set forth in regulations in OMB Circular A-127. The system should be flexible to accommodate new accounts requirements issued by FASAB, OMB and Treasury.	Updated – Reported in current year recommendation # 1
2	FCC Entity	Develop a standard set of transaction codes to process all routine transactions and to allow automated, timely and accurate recording for all recurring entries that are currently entered manually.	Re-Issued – Reported in current year recommendation # 2
3	FCC Entity	Develop an electronic integration between the subsidiary systems and the FCC financial management system to enable FCC component entities to process accounting transactions or report financial data efficiently and effectively.	Re-Issued – Reported in current year recommendation # 3
II. Information Technology Control Deficiencies			
4	FCC Entity	The FCC strengthen its security program oversight and planning by: • appointing a Senior Agency Information Security Officer (SAISO) dedicated to planning, implementing and monitoring the Commission's security program.	Closed
5	FCC Entity	The FCC strengthen its security program oversight and planning by: • formally documenting its responsibilities for directing and overseeing the information security programs for information systems that collect and maintain FCC data, but are not operated by the FCC, to ensure they are administered consistent with all relevant FCC, NIST and OMB requirements and instructions.	Updated – Reported in current year recommendation 4
6	FCC Entity	The FCC strengthen its security program oversight	Updated – Reported in

Significant Deficiencies			
Recommendation Number	**Condition Audit Area**	**Recommendation**	**Current Status**
		and planning by: • revising and finalizing procedures for completing a C&A package in accordance with NIST guidance. Policies and procedures should require: that security assessment testing cover a representative subset of controls and be performed and directed by personnel with sufficient operational independence, and that the FCC documents system security plans in detail sufficient to plan system security controls for general support systems and major applications that are identical or equivalent to the NIST SP 800-53 minimum baseline controls.	current year recommendation 9 and 11
7	FCC Entity	The FCC strengthen its security program oversight and planning by: • certifying and accrediting relevant FCC systems.	Updated – Reported in current year recommendation 10
8	FCC Entity	The FCC strengthen its approach to performing risk assessments by: • implementing procedures for performing risk assessments that help ensure that risk assessments are performed in accordance with NIST guidance and consider a full range of significant risks, and that control recommendations from risk assessments are used to create or update system security plans.	Updated – Reported in current year recommendations 6 and 11
9	FCC Entity	The FCC strengthen its approach to performing risk assessments by: • updating risk assessments at least every three years.	Re-Issued – Reported in current year recommendation 5
10	FCC Entity	The FCC strengthen its approach to performing risk assessments by: • documenting e-authentication policies and procedures for ensuring FCC's compliance with OMB Memorandum 04-04, E-Authentication Guidance for Federal Agencies.	Re-Issued – Reported in current year recommendation 7
11	FCC Entity	The FCC strengthen its approach to performing risk assessments by: • performing e-authentication risk assessments and updating system security plans to define for each e-government application the relevant authentication level and the required level of e-authentication controls to implement.	Re-Issued – Reported in current year recommendation 8

Significant Deficiencies			
Recommendation Number	**Condition Audit Area**	**Recommendation**	**Current Status**
12	FCC Entity	The FCC strengthen its access controls by: • documenting the roles and permissions used within major applications.	Re-Issued – Reported in current year recommendation 15
13	FCC Entity	The FCC strengthen its access controls by: • granting individuals computer room access only after management approval.	Re-Issued – Reported in current year recommendation 17
14	FCC Entity	The FCC strengthen its access controls by: • granting access to FCC systems only after approval by management.	Updated – Reported in current year recommendation 13
15	FCC Entity	The FCC strengthen its access controls by: • limiting logical access to FCC systems for newly hired employees and contractors pending a favorable result from a background check.	Re-Issued – Reported in current year recommendation 12
16	FCC Entity	The FCC strengthen its access controls by: • justifying the access of users with administrator or other elevated access.	Closed
17	FCC Entity	The FCC strengthen its access controls by: • requiring that all user access be reviewed and recertified by management and promptly revoking access for those users who are found to no longer need access or whose access is not recertified.	Re-Issued – Reported in current year recommendation 14
18	FCC Entity	The FCC strengthen its access controls by: • documenting and implementing procedures for documenting and tracking vulnerability remediation.	Re-Issued – Reported in current year recommendation 18
19	FCC Entity	The FCC strengthen its access controls by: • reviewing the scope and applicability of the FCC's password policies, documenting any exceptions to FCC password policies, and wherever applicable, ensuring that password settings are consistent with the FCC's policies.	Re-Issued – Reported in current year recommendation 19
20	FCC Entity	The FCC strengthen its change and configuration management controls by: • restricting developers' access to the production environment.	Re-Issued – Reported in current year recommendation 20

Significant Deficiencies			
Recommendation Number	**Condition Audit Area**	**Recommendation**	**Current Status**
21	FCC Entity	The FCC strengthen its change and configuration management controls by: • revising its draft change management policy to include a requirement that changes be tested before being moved into production.	Updated – Reported in current year recommendation 21
22	FCC Entity	The FCC strengthen its change and configuration management controls by: • implementing change control and configuration management procedures, including procedures for approving changes prior to implementation into production and procedures for maintaining records of changes to facilitate management's review of changes made to FCC systems.	Updated – Reported in current year recommendation 22
23	FCC Entity	The FCC strengthen its monitoring controls by: • documenting and implementing procedures that ensure that at least annually, the FCC performs security assessment testing of a subset of controls to monitor the controls' effectiveness, with all controls being assessed at least once during the three-year authorization cycle.	Re-Issued – Reported in current year recommendation 23
24	FCC Entity	The FCC strengthen its monitoring controls by: • documenting system-level POA&Ms consistent with OMB and NIST guidance.	Updated – Reported in current year recommendation 24
25	FCC Entity	The FCC strengthen its monitoring controls by: • documenting and implementing procedures for the creation, maintenance, and review of POA&Ms, including procedures to help ensure that the FCC documents, prioritizes, tracks and reviews at least quarterly all security weaknesses identified by external and internal reviews. Quarterly reviews should include reporting to the CIO. The rationale for adjusting milestones should be documented.	Updated – Reported in current year recommendation 24

KPMG LLP
2001 M Street, NW
Washington, DC 20036-3389

Independent Auditors' Report on Compliance and Other Matters

Managing Director
Federal Communications Commission

Inspector General
Federal Communications Commission

We have audited the consolidated balance sheets of the Federal Communications Commission (FCC) as of September 30, 2010 and 2009, and the related consolidated statements of net cost, changes in net position, custodial activity, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended, and have issued our report thereon dated November 12, 2010.

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. 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

The management of the FCC is responsible for complying with laws, regulations and contracts applicable to the FCC. As part of obtaining reasonable assurance about whether the FCC's consolidated financial statements are free of material misstatement, we performed tests of the FCC's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in OMB Circular A-127, *Financial Management Systems*. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the FCC. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of certain of our tests of compliance described in the preceding paragraph, disclosed one instance of noncompliance that is required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and is described in Exhibit I.

The results of our other tests of compliance described in the third paragraph of this report disclosed no instances of noncompliance and two other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and are described in the following paragraph.

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

We identified a matter that may be reported as a violation of Federal Acquisition Regulations. Management has also identified a matter that may be reported as a violation of the Anti-Deficiency Act. These matters have been referred to FCC management and the Office of Inspector General and are currently under review. The outcome of these matters, and any resulting ramifications, is not presently known.

The FCC's response to the instance of noncompliance identified in our audit is presented in the Agency Financial Report. We did not audit the FCC's response and, accordingly, we express no opinion on it.

We noted certain additional matters that we have reported to management of the FCC in a separate letter dated November 12, 2010.

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

KPMG LLP

November 12, 2010

Exhibit I

The Federal Managers' Financial Integrity Act (FMFIA)

The FMFIA establishes overall requirements with regard to internal control. The agency head must establish controls that reasonably ensure that: "(i) obligations and costs are in compliance with applicable law; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

In addition, the agency head annually must evaluate and report on the control and financial systems that protect the integrity of Federal programs (Section 2 and Section 4 of FMFIA, respectively).

- Section 2 seeks to assess internal controls necessary to ensure obligations and costs are in compliance with applicable law; funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and revenues and expenditure are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability of assets.
- Section 4 seeks to assess nonconformance of the agency's accounting system with the principles, standards, and related requirements prescribed by the Comptroller General.

Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* provides guidance in complying with section 4 of FMFIA. Section 4 of FMFIA states that financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. Once implemented, this financial management system should allow an entity to prepare reliable financial statements in a timely and efficient manner. In doing so, they shall have the following characteristics:

- Consistent Internal Controls - Internal controls over data entry, transaction processing and reporting shall be applied consistently throughout the system to ensure the validity of information and protection of Federal government resources.

- Common Transaction Processing - Transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.

- Efficient Transaction Entry - Financial information is needed for both external and internal uses. It is required to develop financial statements for periodic external reporting, and, on a day-to-day basis, to make operating decisions, monitor performance, and allocate resources. Pertinent information should be identified, captured, and distributed in a form and time frame that permits people to perform their duties efficiently.

- Implementation of New Technologies - Because information technology changes rapidly, controls must evolve to remain effective. Changes in technology and its application to electronic commerce and expanding Internet applications will change the specific control activities that may be employed and how they are implemented, but the basic requirements of control will not have changed. As more powerful computers place more responsibility for data processing in the hands of the end users, the needed controls should be identified and implemented.

The FCC reporting component entities' current financial systems and processes are not capable of achieving the financial system integration standards set within GAO *Standards for Internal Control in the Federal Government.*

Findings and recommendations were issued under the Financial Reporting Significant Deficiency noted in the *Independent Auditors' Report on Internal Control Over Financial Reporting* dated November 12, 2010.

Office of the Managing Director

M E M O R A N D U M

DATE: November 12, 2010

TO: David L. Hunt, Acting Inspector General

FROM: Steven VanRoekel, Managing Director and Mark Stephens, Chief Financial Officer

SUBJECT: Management's Response to Independent Auditors' Reports on Internal Control Over Financial Reporting and Compliance and Other Matters for Fiscal Year 2010

Thank you for the opportunity to review and comment on the draft reports entitled *Independent Auditors' Report on Internal Control Over Financial Reporting* and *Independent Auditors' Report on Compliance and Other Matters*. We appreciate the efforts of your team and the independent auditor, KPMG LLP, to work with the Federal Communications Commission (Commission) throughout the fiscal year (FY) 2010 audit process. This year's audit opinion was the result of the commitment and professionalism that both of our offices as well as the independent auditors demonstrated during the FY 2010 audit process. During the entire audit process the Commission worked closely with your office and the independent auditors' team to provide necessary and timely information to facilitate an efficient audit process.

We are pleased that, for the fifth straight year, the independent auditor provided an unqualified opinion and found that the Commission's consolidated financial statements for FY 2010 present fairly, in all material respects, the financial position of the Commission as of September 30, 2010. Five straight years of clean audit opinions is an unprecedented accomplishment for the Commission. We are also pleased that the independent auditor did not identify any material weaknesses in the Commission's financial reporting. We have worked very hard to continue strengthening the Commission's internal controls and improving its financial management.

Despite these successes, work remains here at the Commission. The FY 2010 audit report points out two significant deficiencies related to internal controls, notes one instance of non-compliance that still needs to be resolved, and mentions two matters that are currently under review. The primary areas of concern relate to the financial reporting process, information technology control weaknesses, and noncompliance with the Federal Managers' Financial Integrity Act. We concur with the recommendations made by the independent auditors in their report.

First, with regard to addressing the significant deficiency for the financial reporting process related to the Commission and its reporting components, the Commission has taken significant steps throughout FY 2010 to resolve the auditors' findings and improve the performance of its financial reporting process through the implementation of a new core financial management system. The Commission's new core financial system was launched in October 2010 and the Commission is currently working to efficiently deploy all functionality of that system. Also in FY 2010, the Commission continued to work closely with its reporting components in their efforts to modernize their financial systems.

Second, with respect to the significant deficiency related to information technology control weaknesses, the Commission is already working to fully assess the auditors' recommendations and to develop corrective action plans. Some findings are already in the process of being addressed (e.g., the certification and accreditation of key information technology systems). During FY 2011, the Commission will make every effort to complete corrective action for each of the recommendations associated with these findings so as to avoid any repeat findings in this area.

Third, with respect to the instances of noncompliance with the Federal Managers' Financial Integrity Act, the Commission and its reporting components are committed to implementing financial systems that are fully integrated, and that provide efficient and effective processing and reporting of accounting transactions and financial information.

Fourth, the Other Matters reported under review as possible violations of the Federal Acquisition Regulations and the Anti-Deficiency Act will be fully investigated in FY 2011. If any violations of the Anti-Deficiency Act are identified after the investigation, they will be reported to the President and Congress as required by statute and implementing guidance.

Finally, we are committed to continually strengthening the internal controls of the Commission and its reporting components. This commitment includes developing timely, accurate, and useful performance and financial information to ensure the most effective stewardship of both the funds that the Commission oversees and the funds that the Commission uses to finance its operations. We look forward to working in FY 2011 to resolve the FY 2010 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

Steven VanRoekel, Managing Director
Office of Managing Director

Mark Stephens, Chief Financial Officer
Office of Managing Director

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED BALANCE SHEET
As of September 30, 2010 and 2009
(Dollars in thousands)

	FY 2010	FY 2009
ASSETS (Note 2)		
Intragovernmental		
Fund balance with Treasury (Note 3)	$ 457,368	$ 359,735
Investments (Note 5)	6,087,715	6,016,693
Accounts receivable (Note 6)	571	889
Other (Note 8)	33,838	400,451
Total intragovernmental	6,579,492	6,777,768
Cash and other monetary assets (Note 4)	100,344	68,852
Accounts receivable, net (Note 6)	783,620	763,843
Loans receivable, net (Note 7)	48,470	83,589
General property, plant, and equipment, net	65,167	49,616
Other	13,088	7,735
Total assets	$ 7,590,181	$ 7,751,403
LIABILITIES (Note 9)		
Intragovernmental		
Debt (Note 10)	$ 87,726	$ 46,484
Other (Note 11)		
Custodial	226,400	110,808
Other	25,572	7,113
Total other	251,972	117,921
Total intragovernmental	339,698	164,405
Accounts payable	120,477	79,733
Other (Note 11)		
Deferred revenue	132,386	528,234
Prepaid contributions	74,915	57,670
Accrued liabilities for Universal Service	622,400	591,512
Other	49,408	62,778
Total other	879,109	1,240,194
Total liabilities	$ 1,339,284	$ 1,484,332
Commitments and Contingencies (Note 13)		
NET POSITION		
Unexpended appropriations - other funds	$ 21,183	$ 44,000
Cumulative results of operations - earmarked funds (Note 19)	6,135,941	6,051,177
Cumulative results of operations - other funds	93,773	171,894
Total net position	$ 6,250,897	$ 6,267,071
Total liabilities and net position	$ 7,590,181	$ 7,751,403

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2010 and 2009
(Dollars in thousands)

	FY 2010	FY 2009
Program costs:		
Broadband:		
Gross costs (Note 14)	$ 80,775	$ 31,378
Less: earned revenue (Note 14)	(65,393)	(34,791)
Net program costs	15,382	(3,413)
Competition:		
Gross costs (Note 14)	9,023,883	8,219,793
Less: earned revenue (Note 14)	(114,755)	(114,125)
Net program costs	8,909,128	8,105,668
Spectrum:		
Gross costs (Note 14)	154,485	154,242
Less: earned revenue (Note 14)	(143,319)	(137,218)
Net program costs	11,166	17,024
Media:		
Gross costs (Note 14)	50,180	165,217
Less: earned revenue (Note 14)	(43,793)	(95,437)
Net program costs	6,387	69,780
Public Safety and Homeland Security:		
Gross costs (Note 14)	42,320	34,137
Less: earned revenue (Note 14)	(44,389)	(31,195)
Net program costs	(2,069)	2,942
Modernize the FCC:		
Gross costs (Note 14)	70,145	52,519
Less: earned revenue (Note 14)	(52,389)	(49,334)
Net program costs	17,756	3,185
Total Net Program Costs	8,957,750	8,195,186
Cost not assigned to programs:		
Telecommunications Development Fund	7	2
Other expenses	3,415	(593)
Less: earned revenues not attributed to programs:		
Telecommunications Development Fund	(7)	(2)
Net cost of operations	$ 8,961,165	$ 8,194,593

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2010 and 2009
(Dollars in thousands)

	FY 2010			FY 2009		
	Earmarked Funds	All Other Funds	Total	Earmarked Funds	All Other Funds	Total
Cumulative Results of Operations:						
Beginning Balances	$ 6,051,177	$ 171,894	$ 6,223,071	$ 5,927,074	$ 257,497	$ 6,184,571
Budgetary Financing Sources:						
Other adjustments (rescissions, etc.)	-	(77)	(77)	-	(1,164)	(1,164)
Appropriations used	-	41,773	41,773	-	109,698	109,698
Non-exchange revenue (Note 19)	8,990,926	-	8,990,926	8,240,928	-	8,240,928
Other Financing Sources (Non Exchange):						
Transfers in/out without reimbursement	-	(23,311)	(23,311)	-	(19,444)	(19,444)
Imputed financing	-	15,382	15,382	-	14,608	14,608
Other	-	(56,885)	(56,885)	-	(111,533)	(111,533)
Total Financing Sources	8,990,926	(23,118)	8,967,808	8,240,928	(7,835)	8,233,093
Net Cost of Operations	8,906,162	55,003	8,961,165	8,116,825	77,768	8,194,593
Net Change	84,764	(78,121)	6,643	124,103	(85,603)	38,500
Cumulative Results of Operations	6,135,941	93,773	6,229,714	6,051,177	171,894	6,223,071
Unexpended Appropriations:						
Beginning Balances	-	44,000	44,000	-	11,273	11,273
Budgetary Financing Sources:						
Appropriations received	-	18,956	18,956	-	51,765	51,765
Appropriations transferred in/out	-	-	-	-	90,660	90,660
Appropriations used	-	(41,773)	(41,773)	-	(109,698)	(109,698)
Total Budgetary Financing Sources	-	(22,817)	(22,817)	-	32,727	32,727
Total Unexpended Appropriations	-	21,183	21,183	-	44,000	44,000
Net Position	$ 6,135,941	$ 114,956	$ 6,250,897	$ 6,051,177	$ 215,894	$ 6,267,071

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2010 and 2009

(Dollars in thousands)

	FY 2010		FY 2009	
	Budgetary	Non Budgetary Credit Program Financing Acct	Budgetary	Non Budgetary Credit Program Financing Acct
Budgetary Resources:				
Unobligated balance, brought forward, October 1:	$ 3,035,116	$ 12,344	$ 2,282,036	$ 53,904
Recoveries of prior year unpaid obligations	1,043,329	-	1,118,204	-
Budget authority:				
Appropriations received	9,005,071	-	8,425,431	-
Borrowing authority (Note 16)	-	56,732	-	63,745
Spending authority from offsetting collections				
Earned:				
Collected	450,207	14,873	441,543	148,107
Change in receivables from Federal sources	-	-	(15)	-
Change in unfilled customer orders:				
Advance received	16,003	-	1,336	-
Previously unavailable	-	-	54,130	-
Budget authority subtotal	9,471,281	71,605	8,922,425	211,852
Nonexpenditure transfers, net, anticipated and actual	-	-	90,660	-
Temporarily not available pursuant to Public Law	(5,739)	-	(54,185)	-
Permanently not available	(75)	(15,490)	(1,164)	(129,972)
Total budgetary resources	$ 13,543,912	$ 68,459	$ 12,357,976	$ 135,784
Status of Budgetary Resources:				
Obligations incurred: (Note 15)				
Direct	$ 10,958,600	$ 64,072	$ 9,321,120	$ 123,440
Reimbursable	17,740	-	1,740	-
Subtotal	10,976,340	64,072	9,322,860	123,440
Unobligated balance - available:				
Apportioned	244,720	-	350,887	-
Exempt from apportionment	2,164,357	-	2,656,578	-
Unobligated balance not available	158,495	4,387	27,651	12,344
Total status of budgetary resources	$ 13,543,912	$ 68,459	$ 12,357,976	$ 135,784
Change in Obligated Balance:				
Obligated balance, net				
Unpaid obligations, brought forward, October 1	$ 3,157,411	$ -	$ 3,588,774	$ -
Uncollected customer payments from Federal sources, brought forward, October 1	-	-	(15)	-
Total unpaid obligated balance, brought forward, net	3,157,411	-	3,588,759	-
Obligations incurred net (+/-)	10,976,340	64,072	9,322,860	123,440
Gross outlays	(9,354,171)	(64,072)	(8,636,019)	(123,440)
Recoveries of prior year unpaid obligations, actual	(1,043,329)	-	(1,118,204)	-
Change in uncollected customer payments from Federal sources	-	-	15	-
Total, unpaid obligated balance, net, end of period	3,736,251	-	3,157,411	-
Obligated balance, net, end of period				
Unpaid obligations	3,736,251	-	3,157,411	-
Total, unpaid obligated balance, net, end of period	3,736,251	-	3,157,411	-
Net Outlays				
Net Outlays:				
Gross outlays	$ 9,354,171	$ 64,072	$ 8,636,019	$ 123,440
Offsetting collections	(466,210)	(14,873)	(442,879)	(148,107)
Distributed offsetting receipts	(110,015)	-	(189,641)	-
Net outlays	$ 8,777,946	$ 49,199	$ 8,003,499	$ (24,667)

The accompanying notes are an integral part of these statements.

FEDERAL COMMUNICATIONS COMMISSION
CONSOLIDATED STATEMENT OF CUSTODIAL ACTIVITY
For the Years Ended September 30, 2010 and 2009
(Dollars in thousands)

	FY 2010	FY 2009
Revenue Activity:		
Sources of Cash Collections:		
Spectrum Auctions	$ 391,144	$ 16,791,163
Fines and Penalties	10,438	17,745
Credit Reform	6,961	11,915
TDA Interest	7	2
Total Cash Collections	408,550	16,820,825
Accrual Adjustments		
Spectrum Auctions	-	(2,492)
Fines and Penalties	6,061	(9,922)
Total Accrual Adjustments	6,061	(12,414)
Total Custodial Revenue	414,611	16,808,411
Disposition of Collections:		
Transferred to Others:		
Recipient A: U.S. Treasury	(17,399)	(29,660)
Recipient B: Finance Acct. (Recoveries)	-	(87,238)
Recipient C: National Telecommunications & Information Admin.	(196,613)	(16,689,557)
(Increase)/Decrease in Amounts Yet to be Transferred	(115,592)	83,046
Retained by the Reporting Entity	(85,007)	(85,002)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

FOR THE YEARS ENDED SEPTEMBER 30, 2010 AND 2009
(DOLLARS IN THOUSANDS UNLESS OTHERWISE STATED)

Note 1 - Summary of Significant Accounting Policies

A. Reporting Entity

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

The Commission is comprised of three reporting components. The primary component consists of Commission headquarters and field offices. The two additional components are the Universal Service Fund (USF) and the North American Numbering Plan (NANP). The USF reports the results of the four Universal Service support mechanisms (established pursuant to section 254 of the Act, as amended) and the results of the Telecommunications Relay Service (TRS) Fund (established by the Americans with Disabilities Act of 1990, Title IV). The NANP reports the results of billing and collection activities conducted to support the NANP (47 U.S.C. § 251(e); 47 C.F.R. § 52.16, 52.17, 52.32, and 52.33).

B. Basis of Accounting and Presentation

The consolidated financial statements (financial statements) have been prepared from the accounting records of the Commission in conformity with U.S. generally accepted accounting principles (GAAP) and the form and content for Federal entity financial statements specified by OMB Circular No. A-136, "Financial Reporting Requirements."

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

C. Fund Balance with Treasury

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

Note 1 - Summary of Significant Accounting Policies (continued)

D. Cash and Other Monetary Assets

Cash and Other Monetary Assets represent cash on deposit and money market funds at several commercial banks in accounts maintained by the administrators Universal Service Administrative Company (USAC), National Exchange Carrier Association (NECA), and Welch LLP, which contain the names of those entities and also refer to the Commission or the fund for which they serve as administrator or billing and collection agent. Cash on deposit is collateralized by the Federal Reserve.

E. Investments

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

F. Accounts Receivable, Net

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

G. Loans Receivable, Net

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. The 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.

H. Property, Plant and Equipment

The basis for recording purchased general Property, Plant, and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to and from a location suitable for its intended use. All PP&E with an initial acquisition cost of $25 or more and all internally developed software with a development cost of $50 or more, and with an estimated useful life of two years or greater, are capitalized. Bulk purchases of similar items, individually worth less than $25 but collectively worth more than $250, are also capitalized using the same equipment categories and useful lives as capital acquisitions. PP&E are depreciated on a straight-line basis over the estimated useful lives of the items. The useful lives used are: forty years for buildings, seven years for non-computer equipment, five years for computers and vehicles, and three years for software. Neither land, including permanent improvements, nor software in development is depreciated. Normal maintenance and repair costs are expensed as incurred.

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

Note 1 - Summary of Significant Accounting Policies (continued)

I. Other Assets

Other Assets represent the balance of transfers less expenses made by the USF to the USAC to fund administrative costs in advance. Advances are drawn down as expenses are incurred. Other Assets – Intragovernmental are discussed in Note 8.

J. 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.

K. Deferred Revenue

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

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

L. Debt

This account represents amounts due to the U.S. Treasury's Bureau of Public Debt (BPD) to support the spectrum auction loans program. Borrowings from BPD are determined based on subsidy estimates and reestimates in accordance with the FCRA of 1990, as amended, and OMB guidance. Interest payments on debt are calculated annually and remitted to BPD at the end of the fiscal year. These payments are recorded in a receipt account maintained by the Commission.

M. Retirement Plans and Other Benefits

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

Note 1 - Summary of Significant Accounting Policies (continued)

M. Retirement Plans and Other Benefits (continued)

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

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

The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined by using historical benefit payment patterns related to a specific incurred period to predict the ultimate payment related to that period. The Department of Labor (DOL) determines no actuarial liability for the Commission, due to the immateriality to the Federal Government as a whole.

The unfunded Federal Employees' Compensation Act (FECA) liability covers unemployment compensation and medical benefits. The calculation takes the amount of benefit payments over the last nine to twelve quarters and then calculates the annual average of payments. The compensation and medical payments can be found in the chargeback reports that are issued by DOL.

N. Leave

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

O. Revenue and Other Financing Sources

Regulatory Fee Offsetting Collections (Exchange) - The Omnibus Budget Reconciliation Act of 1993 directed the Commission to assess and collect regulatory fees to recover the costs incurred in carrying out certain provisions of its mission. Section 9(a) of the Act, as amended, authorizes the Commission to assess and collect annual regulatory fees to recover the costs, as determined annually by Congress, incurred in carrying out its strategic goals of Broadband, Competition, Spectrum, Media, Public Safety and Homeland Security, and Modernizing the Commission. These fees were established by congressional authority, and, consistent with OMB Circular No. A-25 revised, *User Charges*, the Commission did not determine the full costs associated with its regulatory activity in establishing regulatory fees. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected. Fees collected up to the level established by Congress are applied against the Commission's annual appropriation at the close of each fiscal year. The regulatory fee levels of $335,794 for FY 2010 and $341,875 for FY 2009 were achieved.

Note 1 - Summary of Significant Accounting Policies (continued)

O. Revenues and Other Financing Sources (continued)

Competitive Bidding System Offsetting Collections (Exchange) – One of the Commission's primary functions is managing the spectrum auction program. Proceeds from the auctions are initially remitted to the Commission and are later transferred to the U.S. Treasury, net of anticipated auction related costs (under 47 U.S.C. § 309, the Commission may retain a portion of the spectrum auction proceeds to offset the cost of performing the auction function). Collections used to offset the cost of performing auctions-related activity were capped at $85,000 in FY 2010 and FY 2009.

Radio Spectrum Auction Proceeds (Exchange) – In accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources*, the Commission accounts for this exchange revenue as a custodial activity. Revenue from spectrum auctions is recognized when a "prepared to grant" or "grant" public notice is issued. The value of available spectrum is determined in the market place at the time of auction. The Commission recognized total custodial revenue related to spectrum auctions net of accrual adjustments of $391,144 in FY 2010 and $16,788,671 in FY 2009.

Application Fees (Exchange) – Congress authorized the Commission (47 U.S.C. § 8) to impose and collect application processing fees and directed the Commission to prescribe charges for certain types of application processing or authorization services it provides to communications entities over which the Commission has jurisdiction. The Commission amends its Schedule of Application Fees (47 C.F.R. § 1.1102 *et seq*.) to adjust the fees for processing applications and other filings. Section 8(b) of the Act, as amended, requires the Commission to review and adjust its application fees every two years. The adjusted or increased fees reflect the net change in the Consumer Price Index for all Urban Consumers (CPI-U), calculated over a specific period of time**.** Application fees are deposited in the Treasury and are not available for the Commission's use. Application fees collected totaled $23,311 in FY 2010 and $19,444 in FY 2009.

Reimbursable Work Agreements (Exchange) – The Commission recognizes reimbursable work agreement revenue when earned, i.e., goods that have been delivered or services rendered. The Commission executed agreements totaling $21,410 in FY 2010 and $1,583 in FY 2009.

Annual Appropriations (Financing Source) – The Commission receives an annual Salaries and Expenses appropriation from Congress. These funds are used to pay for operations during the fiscal year and are repaid to the Treasury once regulatory fees are collected. The annual appropriation of $335,794 for FY 2010 and $341,875 for FY 2009 is fully funded by regulatory fee collections.

Note 1 - Summary of Significant Accounting Policies (continued)

O. Revenues and Other Financing Sources (continued)

Subsidy Estimates and Reestimates (Financing Source) – The Commission receives permanent-indefinite authority for its credit reform program account in accordance with the FCRA of 1990, as amended, to fund its subsidy estimates and reestimates, unless otherwise prescribed by OMB. This account records the subsidy costs associated with the direct loans after FY 1991, as well as administrative expenses of the loan program. The Commission received an appropriation for an upward subsidy of $18,956 in FY 2010 and $51,765 in FY 2009. These appropriations are available until used.

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 and earmarked receipts and are accounted for as a budgetary financing source.

Digital to Analog Converter Box Program – DTV Outreach Recovery Act Funds (Financing Source) – During FY 2009 the National Telecommunications and Information Administration (NTIA), U.S. Department of Commerce (DOC), transferred $70,605 in appropriated funds to the Commission for the purposes of consumer education and outreach regarding the digital television transition. These funds are part of the American Recovery and Reinvestment Act (ARRA) of 2009.

Broadband Technology Opportunities Program (BTOP) – National Broadband Plan Recovery Act Funds (Financing Source) - During FY 2009, the NTIA transferred $20,055 in appropriated funds to the Commission for the purpose of establishing benchmarks to ensure that all people of the United States have access to broadband capability. These funds are part of the ARRA of 2009. The Commission also entered into additional reimbursable agreements with NTIA and United States Department of Agriculture (USDA) for the detail of various Commission employees to provide advice and assistance in the implementation and administration of BTOP as well as providing for the use of the Tower Construction Notification System in support of the Broadband Initiatives Program. NTIA and USDA advanced the Commission $724 in appropriated funds for these efforts. These funds are part of the ARRA of 2009.

Broadband Technology Opportunities Program – National Broadband Map Recovery Act Funds (Financing Source) – During FY 2010, the NTIA entered into a reimbursable agreement with the Commission to provide technical and other services needed to develop a comprehensive nationwide inventory map of existing broadband service capability and availability in the United States. NTIA advanced the Commission a total of $18,650 in ARRA funds to support this effort.

Allocation of Exchange Revenues

The Commission directly assigns exchange revenue from reimbursable work agreements to specific programs on the Statement of Net Cost. Exchange revenue from application fees and offsetting collections related to Regulatory Fees and the Competitive Bidding System is assigned to programs in direct proportion to the level of direct and indirect costs recognized for each program. Radio Spectrum Auction proceeds are exchange revenue but are recorded on the Statement of Custodial Activity because the Commission recognizes virtually no cost in connection with the revenues earned in the spectrum auction.

Reprogramming

The Commission received approval in FY 2010 to reprogram $4,500 of prior year unobligated funds to enable the Commission to focus on important media issues and continue to make a critical investment in the people needed to transform the Commission into a twenty-first century agency for the information age.

Note 1 - Summary of Significant Accounting Policies (continued)

P. Transactions with Related Parties

The Commission has a direct oversight relationship with the administrators and billing and collection agents (B&C agents) of funds that are components under the overall Commission entity. These organizations are the USAC, which is both the administrator and B&C agent for the four USF support mechanisms, the NECA which is both the administrator and B&C agent for the TRS Fund, and Neustar which is the administrator for the NANP fund and Welch LLP which is the B&C agent for the NANP fund. The Commission approves the administrative costs paid to these entities from the respective funds that they manage. The administrative costs cover expenses such as the salaries and benefits for the employees dedicated to managing the funds; rent and utilities for office space used; accounting and other financial reporting related services; and other management activities. All related party balances as of and for the years ended September 30, 2010 and 2009 are listed below:

	USF	TRS	NANP	Total
FY 2010:				
Administrative Fees	$ 108,105	$ 1,521	$ 3,899	$ 113,525
Due To	7,941	-	-	7,941
Due From		-	-	-
Total	$ 116,046	$ 1,521	$ 3,899	$ 121,466
FY 2009:				
Administrative Fees	$ 182,711	$ 1,390	$ 3,932	$ 188,033
Due To	-	98	-	98
Due From	7,677	-	-	7,677
Total	$ 190,388	$ 1,488	$ 3,932	$ 195,808

Q. Net Position

Net Position is the residual difference between assets and liabilities and is comprised of 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 difference since the inception of the Commission of (1) expenses and losses and (2) financing sources including appropriations, revenues, and gains.

Note 2 - Non-entity Assets

The following summarizes Non-entity Assets as of September 30, 2010 and 2009:

	FY 2010	FY 2009
Intragovernmental:		
Fund Balance with Treasury (FBWT)	$ 261,822	$ 143,772
Accounts Receivable, Net	556	874
Other (Note 8)	33,838	400,451
Total Intragovernmental	296,216	545,097
Cash and Other Monetary Assets	-	21,012
Accounts Receivable, Net	21,598	18,053
Total Non-entity Assets	317,814	584,162
Total Entity Assets	7,272,367	7,167,241
Total Assets	$ 7,590,181	$ 7,751,403

Non-entity Fund Balance with Treasury primarily represents deposits made towards spectrum auction winning bids. These deposits accounted for $250,788 in FY 2010 and $132,199 in FY 2009. Non-entity Cash and Other Monetary Assets also consist of deposits made by spectrum auction bidders that are held outside of Treasury. Receivables considered non-entity are for regulatory fees, application fees, fines and forfeitures, spectrum auction receivables, and International Telecommunications Settlement (ITS) charges.

Note 3 - Fund Balance with Treasury

The following summarizes Fund Balance with Treasury as of September 30, 2010 and 2009:

FY 2010

	Appropriated Funds	Revolving Funds	Deposit Funds	Total
Unobligated Balance				
Available	$ 44,972	$ 4,387	$ -	$ 49,359
Unavailable	61,004	-	-	61,004
Obligated Balance not yet Disbursed	85,183	-	-	85,183
Non-Budgetary FBWT	-	-	261,822	261,822
Total	$ 191,159	$ 4,387	$ 261,822	$ 457,368

FY 2009

	Appropriated Funds	Revolving Funds	Deposit Funds	Total
Unobligated Balance				
Available	$ 48,209	$ 12,344	$ -	$ 60,553
Unavailable	57,645	-	-	57,645
Obligated Balance not yet Disbursed	97,765	-	-	97,765
Non-Budgetary FBWT	-	-	143,772	143,772
Total	$ 203,619	$ 12,344	$ 143,772	$ 359,735

Note 3 - Fund Balance with Treasury (continued)

Appropriated Funds – Includes the salaries and expense appropriation used to fund agency operations, the auction and reimbursable accounts, the credit reform program account and the no-year accounts used to carry over spectrum auction funds, offsetting collections, excess regulatory fees, and the Office of Inspector General USF funds.

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

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

Note 4 – Cash and Other Monetary Assets

The following summarizes Cash and Other Monetary Assets as of September 30, 2010 and 2009:

	FY 2010	FY 2009
Cash and Other Monetary Assets	$ 100,344	$ 68,852

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

In FY 2010, Cash and Other Monetary Assets included no deposits or related accrued interest being held for spectrum auctions, $97,417 in USF contributions and related accrued interest being held for distribution, and $2,927 in NANP deposits and related accrued interest.

In FY 2009, Cash and Other Monetary Assets included $21,012 in deposits or related accrued interest being held for spectrum auctions, $44,199 in USF contributions and related accrued interest being held for distribution, and $3,641 in NANP deposits and related accrued interest.

Note 5 - Investments

The following summarizes Investments as of September 30, 2010 and 2009:

	Purchase Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosures
FY 2010						
Intragovernmental Securities:						
Marketable Securities						
Treasury Bills	$ 4,264,815	EI	$ 2,370	$ -	$ 4,267,185	$ 4,267,642
Treasury Notes	1,821,636	EI	(5,770)	4,664	1,820,530	1,821,310
Total	$ 6,086,451		$ (3,400)	$ 4,664	$ 6,087,715	$ 6,088,952
FY 2009						
Intragovernmental Securities:						
Marketable Securities						
Treasury Bills	$ 5,534,226	EI	$ 4,844	$ -	$ 5,539,070	$ 5,541,136
Treasury Notes	475,786	EI	(1,233)	3,070	477,623	475,891
Total	$ 6,010,012		$ 3,611	$ 3,070	$ 6,016,693	$ 6,017,027

EI - Effective Interest Method

All Treasury securities, regardless of the maturity date, are reported as investments. The Commission expects to hold all investments to maturity; therefore, no adjustments have been made to present market values. All investments are held by USF and are also recognized as part of earmarked funds in Note 19.

The cash receipts collected from the public for the USF are used to purchase federal securities. Treasury securities are an asset to the USF and a liability to the U.S. Treasury. Because the USF and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

Treasury securities provide the USF with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the USF requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

Note 6 - Accounts Receivable, Net

The following summarizes Accounts Receivable, Net as of September 30, 2010 and 2009:

FY 2010

	Intragovernmental	Public	Total
Gross Accounts Receivable	$ 571	$ 1,236,959	$ 1,237,530
Allowance for Doubtful Accounts	(-)	(453,339)	(453,339)
Net Accounts Receivable	$ 571	$ 783,620	$ 784,191

FY 2009

	Intragovernmental	Public	Total
Gross Accounts Receivable	$ 889	$ 1,172,675	$ 1,173,564
Allowance for Doubtful Accounts	(-)	(408,832)	(408,832)
Net Accounts Receivable	$ 889	$ 763,843	$ 764,732

Accounts receivable are recorded net of any related allowance for doubtful accounts. The Commission's portion is determined by applying predetermined percentages against the respective date the receivable was established. The current formula for the Commission's allowance is 25% for receivables 91-180 days outstanding, 75% for those 181-365 days outstanding, and 100% for anything greater than 365 days outstanding. An additional analysis of higher dollar value receivables is also performed on individual account balances. The USF portion is determined by calculating an estimated general allowance for doubtful accounts receivable. The general allowance is calculated by multiplying the receivable amounts by the percentage of the estimated uncollectible amount as determined by a review of historical collection rates by type of receivable.

The Notice of Apparent Liabilities (NAL) receivables represent notifications of a forfeiture, subject to final determination. The NAL receivables are included under the Forfeitures category in the table below. 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. A 100% allowance is made for all NAL receivables. Similarly, the Commitment Adjustment (COMAD) for Schools and Libraries audit receivables are subject to appeal and are not considered final until the appeals period has lapsed or a final determination has been issued. The COMAD audit receivables for Schools and Libraries have a 74% allowance in FY 2010 and FY 2009.

	FY 2010			FY 2009		
	Accounts Receivable	Allowance	Net	Accounts Receivable	Allowance	Net
USF	$ 973,987	$ (245,241)	$ 728,746	$ 936,300	$ (218,481)	$ 717,819
COMAD - Schools and Libraries	124,859	(91,896)	32,963	104,818	(77,145)	27,673
Regulatory Fees	29,832	(18,581)	11,251	29,452	(15,159)	14,293
Spectrum Auction	21,254	(21,254)	-	21,246	(21,246)	-
Forfeitures	70,323	(65,393)	4,930	69,821	(68,237)	1,584
Other	17,275	(10,974)	6,301	11,927	(8,564)	3,363
Total	$ 1,237,530	$ (453,339)	$ 784,191	$ 1,173,564	$ (408,832)	$ 764,732

Note 7 – Loans Receivable, Net

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

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

The Commission's first auction was conducted in 1994, and starting in 1995 installment payment mechanisms were used to finance portions of some winning bids. The Commission's installment loan portfolio is tracked under ten cohorts. The last active loan matured in April 2007.

As required under the FCRA of 1990, as amended, the Commission coordinates with the OMB in developing estimation guidelines, regulations, and the criteria used in calculating the subsidy estimates and reestimates. The most recent subsidy reestimate was completed in September 2010 for actual performance data through June 30, 2010. The reestimate resulted in a net upward adjustment, including interest on the reestimate, of $40,118 reported in the FY 2010 financial statements.

Direct Loans

Loan Program	Loans Receivable, Gross	Interest Receivable	Other Receivables	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Spectrum Auctions:					
FY 2010 Bal.	$ 197,837	$ 15,410	$ 1,483	$ (166,260)	$ 48,470
FY 2009 Bal.	$ 201,965	$ 15,467	$ 1,408	$ (135,251)	$ 83,589

Interest accrued on bankrupt and defaulted loans totaled $15,410 in FY 2010 and $15,467 in FY 2009.

Other Receivables is composed of outstanding late fees on the loans receivable.

Note 7 – Loans Receivable, Net (continued)

Total Amount of Direct Loans Disbursed

No new loans were issued in FY 2010 or FY 2009.

Subsidy Expense for Direct Loans by Program and Component

Direct Loan Modifications and Reestimates:

Loan Program	Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
Spectrum Auctions:				
FY 2010 (Net)	$ -	$ -	$ 40,118	$ 40,118
FY 2009 (Net)	$ -	$ -	$ (43,179)	$ (43,179)

Schedule for Reconciling Subsidy Cost Allowance Balances

	FY 2010	FY 2009
Beginning Balance of the Subsidy Cost Allowance	$ 135,251	$ 40,926
Adjustments:		
Recoveries	16	87,309
Loans written off	(3,975)	(8,137)
Subsidy allowance amortization	(5,150)	(4,483)
Other	-	62,815
Ending balance before reestimates	126,142	178,430
Subsidy reestimates:		
Technical/default reestimate	40,118	(43,179)
Ending balance of the subsidy cost allowance	$ 166,260	$ 135,251

Administrative Expense	FY 2010	FY 2009
Spectrum Auctions	$ 3,572	$ 3,383

Note 8 – Other Assets

The Commission was required by the Digital Television Transition and Public Safety Act of 2005 to transfer the proceeds received from its competitive licensing bidding system for recovered analog auction spectrum licenses into the Digital Television Transition and Public Safety Fund (the Fund) by June 30, 2008. At the time of transfer and through September 30, 2008, there was $17,177,707 in proceeds that had not been earned by the Federal government because the licenses related to these proceeds had not been granted. As the custodian for this spectrum, the Commission retained a deferred revenue liability to the public for this amount in the event that any of these proceeds are required to be refunded. As an offset to the liability, the Commission recognized an Intragovernmental Other Asset from the National Telecommunications and Information Administration (NTIA) who held the related Fund Balance. The NTIA recorded a corresponding Other Liability that eliminates with the Commission Other Asset for Governmentwide Financial Reporting purposes. The Commission has granted $366,613 to reduce the September 30, 2009 Other Asset balance of $400,451 down to $33,838 as of September 30, 2010. There is a corresponding balance of $33,838 in Deferred Revenue at September 30, 2010 that relates to Auction #73 licenses that have not yet been granted.

Note 9 - Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2010 and 2009:

	FY 2010	FY 2009
Intragovernmental:		
Other:		
FECA Liability	$ 590	$ 561
GSA Real Estate Taxes	5,335	2,095
Other:		
Unfunded Leave	20,691	19,622
Accrued Liabilities for Universal Service	622,401	591,512
Total liabilities not covered by budgetary resources	649,017	613,790
Total liabilities covered by budgetary resources	690,267	870,542
Total Liabilities	$ 1,339,284	$ 1,484,332

Note 10 - Debt

	FY 2009 Beginning Balance	Net Borrowing	FY 2009 Ending Balance	Net Borrowing	FY 2010 Ending Balance
Debt to the Treasury	$ 112,711	$ (66,227)	$ 46,484	$ 41,242	$ 87,726

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

Note 11 - Other Liabilities

The following summarizes Other Liabilities as of September 30, 2010 and 2009:

FY 2010	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 226,400	$ 226,400
Other	-	25,572	25,572
Total Intragovernmental	$ -	$ 251,972	$ 251,972
Deferred Revenue	$ 26,637	$ 105,749	$ 132,386
Prepaid Contributions	-	74,915	74,915
Accrued Liabilities for Universal Service	-	622,400	622,400
Other	-	49,408	49,408
Total Other Public	$ 26,637	$ 852,472	$ 879,109

FY 2009	Non-Current	Current	Total
Intragovernmental			
Custodial Liability	$ -	$ 110,808	$ 110,808
Other	-	7,113	7,113
Total Intragovernmental	$ -	$ 117,921	$ 117,921
Deferred Revenue	$ 24,920	$ 503,314	$ 528,234
Prepaid Contributions	-	57,670	57,670
Accrued Liabilities for Universal Service	-	591,512	591,512
Other		62,778	62,778
Total Other Public	$ 24,920	$ 1,215,274	$ 1,240,194

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

Prepaid Contributions include USF and NANP contribution overpayments that may be refunded or used to offset future payments. Accrued Liabilities for Universal Service represent liabilities recorded by the USF for anticipated subsidies in the High Cost, Low Income, and TRS programs. The obligation for these subsidies is not recognized until payment files are approved in the subsequent month. Remaining Other Liabilities primarily represent anticipated payments for services received, but not billed and Deposit/Unapplied Liability which represents upfront deposits made by auction bidders as well as funds received that are being held until proper application is determined.

Note 12 - Leases

Operating Leases

The Commission has operating leases for rental of office space. As a Federal agency, the Commission is not liable for any lease terms beyond one year. The Commission anticipates that space levels consistent with FY 2010 will be required for the next five years and has estimated space 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
2011	$ 46,251
2012	47,235
2013	48,298
2014	49,389
2015	50,508
Total Future Lease Payment	$ 241,681

Note 13 - Commitments and Contingencies

The Commission, USAC, and the Department of Justice are investigating several cases and prosecuting others related to disbursements of USF funds from the Schools and Libraries, High Cost, and Low Income programs which might result in future proceedings or actions. Similarly the Commission, NECA, and the Department of Justice are investigating several cases related to the TRS funds. The complexity of these actions precludes management from estimating the total amount of recovery that may result from these actions.

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

The Commission has examined its obligations related to cancelled authority and believes it has no outstanding commitments requiring future resources other than those as disclosed in Note 9.

In September 2007, the National Treasury Employees Union (NTEU) filed a grievance with the Commission under the Federal Labor Standards Act (FLSA) alleging that certain Commission bargaining unit employees were not sufficiently compensated for overtime work. It is reasonable to believe that a Commission loss on some issues is a possible outcome. However, it is impossible to estimate the monetary impact of the grievance at this time.

Note 14 – Intragovernmental Costs and Exchange Revenue

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

Program Costs - FY 2010

Program	Intragovernmental	Public	Total
Broadband	17,197	$ 63,578	$ 80,775
Competition	30,157	8,993,726	9,023,883
Spectrum	33,885	120,600	154,485
Media	11,871	38,309	50,180
Public Safety and Homeland Security	12,437	29,883	42,320
Modernize the FCC	14,335	55,810	70,145
Total	$ 119,882	$ 9,301,906	$ 9,421,788

Program Earned Revenue - FY 2010

Program	Intragovernmental	Public	Total
Broadband	$ -	$ 65,393	$ 65,393
Competition	-	114,755	114,755
Spectrum	4,262	139,057	143,319
Media	-	43,793	43,793
Public Safety and Homeland Security	2,593	41,796	44,389
Modernize the FCC		52,389	52,389
Total	$ 6,855	$ 457,183	$ 464,038

Program Costs - FY 2009

Program	Intragovernmental	Public	Total
Broadband	$ 9,518	$ 21,860	$ 31,378
Competition	29,311	8,190,482	8,219,793
Spectrum	31,374	122,868	154,242
Media	25,488	139,729	165,217
Public Safety and Homeland Security	10,369	23,768	34,137
Modernize the FCC	14,525	37,994	52,519
Total	$ 120,585	$ 8,536,701	$ 8,657,286

Program Earned Revenue - FY 2009

Program	Intragovernmental	Public	Total
Broadband	$ -	$ 34,791	$ 34,791
Competition	-	114,125	114,125
Spectrum	5,729	131,489	137,218
Media	-	95,437	95,437
Public Safety and Homeland Security	(166)	31,361	31,195
Modernize the FCC	-	49,334	49,334
Total	$ 5,563	$ 456,537	$ 462,100

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

The following summarizes Apportionment Categories of Obligations Incurred for the years ended September 30, 2010 and 2009:

	FY 2010		FY 2009	
	Budgetary	Non-Budgetary	Budgetary	Non-Budgetary
Direct				
Category A	$ 420,586	$ -	$ 428,416	$ -
Category B	763,872	64,072	824,764	123,440
Exempt from Apportionment	9,774,142	-	8,067,940	-
Total Direct	$ 10,958,600	$ 64,072	$ 9,321,120	$ 123,440
Reimbursable				
Category A	$ 17,740	$ -	$ 1,740	$ -

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

Note 16 - Terms of Borrowing Authority Used

Maturity Dates :	FY 2010	FY 2009
September 30, 2009	$ -	$ -
September 30, 2010	-	-
September 30, 2011	56,732	63,745
Total Borrowing Authority Used	$ 56,732	$ 63,745

The Commission used $56,732 in borrowing authority for the year ending September 30, 2010. The Commission used $63,745 in borrowing authority for the prior year ending September 30, 2009. This authority was used to extend the maturity dates of the debt owed to BPD. The Commission anticipates that this borrowing will be repaid from proceeds generated from the recovery of funds related to bankrupt and defaulted loans.

Note 17 – Legal Arrangements Affecting Use of Unobligated Balances

Pursuant to Public Law 111-8, offsetting collections received in excess of $335,794 in FY 2010 shall not be available for obligation and any remaining offsetting collections from prior years collected in excess of the amount specified for collection in each such year otherwise becoming available on October 1, 2009, are not available for obligation.

Note 18 - Explanation of Differences Between the Statement of Budgetary Resources (SBR) and the Budget of the U.S. Government

There were no material differences between the Statement of Budgetary Resources for FY 2009 and the amounts presented in the 2011 President's Budget. The FY 2011 *Budget of the United States Government* (President's Budget) with actual numbers for FY 2010 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.

Note 19 – Earmarked Funds

U.S. telecommunications companies are obligated to make contributions to the USF and the TRS. These contributions are accounted for in the Budget of the U.S. Government as the "Universal Service Fund." The Commission currently recognizes the contributions collected under the USF Program as non-exchange revenue on its Statement of Changes in Net Position, and the related disbursements as program expenses on the Statement of Net Cost.

Note 19 – Earmarked Funds (continued)

The following summarizes the significant assets, liabilities, and related costs incurred with managing the USF Program as of September 30, 2010 and 2009:

	FY 2010	FY 2009
Balance Sheet		
ASSETS		
Investments	$ 6,087,715	$ 6,016,693
Cash and other monetary assets	97,417	44,199
Accounts receivable, net	775,594	757,347
General property, plant, and equipment, net	10,771	15,244
Other assets	13,024	7,677
Total assets	$ 6,984,521	$ 6,841,160
LIABILITIES		
Accounts payable	$ 120,149	$ 77,954
Deferred revenue	31,150	62,875
Prepaid contributions	74,881	57,642
Accrued liabilities	622,400	591,512
Total liabilities	$ 848,580	$ 789,983
Cumulative results of operations	$ 6,135,941	$ 6,051,177
Total liabilities and net position	$ 6,984,521	$ 6,841,160
Statement of Net Cost		
Gross program costs	$ 8,906,162	$ 8,116,825
Less earned revenues	-	-
Net cost of operations	$ 8,906,162	$ 8,116,825
Statement of Changes in Net Position		
Net position beginning of period	$ 6,051,177	$ 5,927,074
Non-exchange revenue	8,990,926	8,240,928
Transfers in/out without reimbursement	-	-
Net cost of operations	8,906,162	8,116,825
Change in net position	84,764	124,103
Net position end of period	$ 6,135,941	$ 6,051,177

Note 20 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders totaled $3,585,456 as of September 30, 2010 and $3,058,208 as of September 30, 2009.

Note 21 – Reconciliation of Net Cost of Operations (Proprietary) to Budget (Formerly the Statement of Financing)

As of September 30, 2010 and 2009:

	FY 2010	FY 2009
Budgetary Resources Obligated:		
Obligations incurred	$ 11,040,412	$ 9,446,300
Less: spending authority from offsetting collections and recoveries	1,524,412	1,709,175
Obligations net of offsetting collections and recoveries	9,516,000	7,737,125
Less: offsetting receipts	110,015	189,641
Net obligations	9,405,985	7,547,484
Other Resources	(64,814)	(116,467)
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in Undelivered Orders	(527,248)	443,543
Resources that fund expenses recognized in prior periods	-	-
Budgetary offsetting collections and receipts that do not affect net cost of operations	124,888	337,748
Resources that finance the acquisition of assets	(32,392)	(25,321)
Other	21,857	(40,873)
Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:		
Increase in annual leave liability	1,069	1,432
Upward/Downward reestimates of credit subsidy (+/-)	40,118	(43,179)
Increase in exchange revenue receivable from the public	1,460	351
Depreciation and amortization	17,039	12,174
Revaluation of assets or liabilities (+/-)	(100)	(7)
Other (+/-)	(26,697)	77,708
Net Cost of Operations	$ 8,961,165	$ 8,194,593

Required Supplementary Information

REQUIRED SUPPLEMENTARY INFORMATION – STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2010
(Dollars in thousands)

The OMB Circular No. A-136, "Financial Reporting Requirements," requires additional disclosure of an entity's budgetary information by major budgetary account if the information was aggregated for presentation purposes on the Statement of Budgetary Resources. The major budget accounts include the Commission and the USF. Reflected in the chart below are the major accounts of the Commission that are aggregated and presented in the September 30, 2010 Combined Statement of Budgetary Resources.

FY2010	**S&E**	**Credit**	**Auctions**	**USF**	**Total**
Budgetary Resources:					
Unobligated balances - brought forward, October 1	$ 41,534	$ 19,345	$ 3,135	$ 2,983,446	$ 3,047,460
Recoveries of prior year unpaid obligations	10,796	21	1,880	1,030,632	1,043,329
Budget authority	363,319	90,562	85,000	9,004,005	9,542,886
Nonexpenditure transfers, net, anticipated and actual	4,781	-	(4,781)	-	-
Temporarily not available pursuant to Public Law	(5,739)	-	-	-	(5,739)
Permanently not available	(75)	(15,490)	-	-	(15,565)
Total budgetary resources	$ 414,616	$ 94,438	$ 85,234	$ 13,018,083	$ 13,612,371
Status of Budgetary Resources:					
Obligations incurred	$ 375,882	$ 83,308	$ 85,035	$ 10,496,187	$ 11,040,412
Unobligated balances - available	37,744	6,720	-	2,364,613	2,409,077
Unobligated balances - not available	990	4,410	199	157,283	162,882
Total, status of budgetary resources	$ 414,616	$ 94,438	$ 85,234	$ 13,018,083	$ 13,612,371
Change in Obligated Balance:					
Total unpaid obligated balance, net brought Forward	$ 67,339	$ 1,119	$ 29,307	$ 3,059,646	$ 3,157,411
Obligations incurrred, net	375,882	83,308	85,035	10,496,187	11,040,412
Gross outlays	(372,446)	(79,962)	(91,324)	(8,874,511)	(9,418,243)
Recoveries of prior year unpaid obligations, actual	(10,796)	(21)	(1,880)	(1,030,632)	(1,043,329)
Total, Unpaid obligated balance, net, end of period	$ 59,979	$ 4,444	$ 21,138	$ 3,650,690	$ 3,736,251
Net Outlays					
Gross outlays	$ 372,446	$ 79,962	$ 91,324	$ 8,874,511	$ 9,418,243
Offsetting collections	(363,320)	(14,873)	(85,000)	(17,890)	(481,083)
Distributed offsetting receipts	(87,235)	-	-	(22,780)	(110,015)
Net outlays	$ (78,109)	$ 65,089	$ 6,324	$ 8,833,841	$ 8,827,145

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3. Other Accompanying Information

Summary of Financial Statement Audit

Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

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

Improper Payments Information Act Reporting Details

I. RISK ASSESSMENTS

The Improper Payments Information Act (IPIA) requires Federal agencies to report annually on the extent of improper payments in the programs it administers and on actions taken to reduce such payments. After the requirements of IPIA went into effect, the Commission conducted a complete inventory of its programs that make disbursements. The Commission identified eight programs for analysis. Based upon the Commission's, Office of Inspector General's (OIG's), and Independent auditors' evaluations of disbursements from these eight programs, two programs, the Universal Service Fund's (USF) High Cost program and the Schools and Libraries program continue to have sufficient volume and error rates to warrant further investigation and monitoring. The Commission is still in the process of evaluating the results of all relevant data from two rounds of audits performed in 2008 and 2009 on these programs and will be in a better position to provide the most accurate error rates once this evaluation is complete.

In addition to the High Cost and Schools and Libraries programs, the OIG also identified another USF program, the Low Income program, as being at risk for significant improper payments. The OIG is currently reviewing whether the Low Income program disbursement system is in accordance with applicable law and meets the goals of eliminating fraud, waste and abuse.

Prior to FY 2010, the OIG directed USAC to perform three rounds of audits of the USF to determine the IPIA error rate of the USF program. The OIG is no longer directing the audit effort for the IPIA program. The OIG has coordinated with the Office of Managing Director (OMD) to ensure that future IPIA testing is handled through the OMD and that OMD coordinates with USAC on IPIA testing and audits. In FY 2010, the Commission developed a more complete assessment plan to determine compliance with IPIA and to identify fraud, waste and abuse. This new plan directed USAC to implement both an IPIA assessment program and a compliance audit program for USF. In FY 2010, USAC hired an independent firm to conduct the IPIA assessment program and to identify the error rate of all USF programs in accordance with IPIA requirements. We expect these results to be available in FY 2011.

In FY 2010, the Commission reviewed and evaluated the disbursements of the North American Numbering Plan program and determined that this program remains at low risk of making improper payments.

II. STATISTICAL SAMPLING PROCESS

The Commission's OIG previously worked with USAC to hire a professional statistician to develop statistical sampling plans to determine the location and number of USF beneficiaries that would be subject to audits during fiscal years 2007, 2008 and 2009. The statistical sampling plan called for a 90 percent confidence level in each year's round of audits. Disbursements made during FY 2005 to the USF beneficiaries in the sample were then audited during FY 2007 and disbursements made in subsequent years were audited in FY 2008 and FY 2009. The results from each round of audits were to be used to calculate improper payment rates for the universe of beneficiaries. Additional details are shown below concerning the methods used to test the three programs at risk of significant improper payments.

The OIG reports on these reports noted that the margins of error for the High Cost, Schools and Libraries, and Low Income programs were initially reported to be outside the acceptable parameters established by the Office of Management of Budget (OMB) of plus or minus 2.5 percent for measuring improper payments. USAC issued a report with revised error rates for the FY 2007 High Cost and Schools and Libraries programs; however those error rates include a margin of error that is outside the acceptable parameters established by OMB.

High Cost

FY 2007 results – As previously reported by the OIG and included in the Commission's FY 2007 Performance and Accountability Report (PAR), the High Cost program sample design included 65 audits. Each auditee was selected by using a simple random sample of 65 Study Area Codes pulled from a population of 1,896 Study Area Codes. In FY 2007, the OIG issued a report with initial results that estimated that the improper payment rate was 16.6% with a margin of error of plus or minus 10% and estimated that $620 million in improper payments were made for the year tested. These initial results included incomplete results for 14 of the 65 audits. The Commission directed USAC to work with external auditors to complete audit efforts on these 14 incomplete audits and to provide the Commission with complete audit results. In FY 2009, USAC provided the Commission with an updated report that included complete results for 12 of the 14 incomplete audits and updated statistical information on the projected error rate for all completed audits, i.e., 63 of the 65 audits. The revised USAC report concluded, after completion of the additional audit work, that the improper payment rate is 2.7% with a margin of error of plus or minus 2.8% and estimated $103 million in improper payments. The updated results were reviewed by the Commission and are included in the tables listed below.

FY 2008 results – The OIG directed USAC's independent auditors to perform a second round of audits with similar sampling methods to the first round of audits in an effort to reduce the reported margin of error for the program. In this round, 390 audits were performed and the OIG reported the results on November 14, 2008, in an initial report that revealed that the improper payment rate was 23.3% with a margin of error of plus or minus 2.3%, and estimated that $970.3 million in improper payments were made for the year tested. These results, like the FY 2007 results, included a sizeable number of incomplete audit results which USAC and external auditors are currently completing. The Commission will review the updated results when they become available and provide updated results for this round of audits.

FY 2009 results – The OIG initiated through USAC a third round of audits with similar sampling methods to the first two rounds of audits. In this round, 331 audits were performed. The OIG is no longer directing the IPIA effort and will not be reporting on the results of this round of audits. USAC continues to perform audit follow-up work on numerous audits that were either withdrawn or disclaimed upon by the independent auditors. The Commission will review the USAC follow-up work and updated report when it becomes available and provide updated results for this round of audits.

FY 2010 results – The OMD directed USAC to hire an independent firm to identify the error rate of the High Cost program in accordance with the IPIA requirements and these results should be available in FY 2011.

Schools and Libraries

FY 2007 results – As previously reported by the OIG and included in the Commission's FY 2007 PAR, the Schools and Libraries program sample design included 155 audits. Each auditee was selected by using a stratified simple random sample of 155 Funding Request Numbers from a population database of 95,558 Funding Request Numbers. In FY 2007, the OIG issued a report with initial results that estimated that the improper payment rate was 12.9% with a margin of error of plus or minus 4.5% and estimated that $210.6 million in improper payments were made for the year tested. USAC conducted additional work to complete the audit effort initiated by the OIG, and in FY 2009 USAC issued a report that concluded that the estimated improper payment rate was 8.6% with a margin of error of plus or minus 3.7% and estimated $140 million in improper payments. These results are reported in the Commission's FY 2010 AFR.

FY 2008 results – The OIG directed USAC's independent auditors to perform a second round of audits with similar sampling methods to the first round of audits in an effort to reduce the reported margin of error for the program. In this round, 260 audits were performed. The OIG reported the results of this round on November 14, 2008, in an initial report that revealed that the improper payment rate was 13.8% with a margin of error of plus or minus 3.1%, and estimated that $232.7 million in improper payments were made for the year tested. These results, like the FY 2007 results, included a sizeable number of audits that required additional follow-up work to determine final results. USAC continues to perform the additional follow-up work to complete these audits and will issue an updated report. The Commission will review the USAC follow-up work and updated report when it becomes available and provide updated results for this round of audits.

FY 2009 results – The OIG initiated a third round of audits through USAC's independent auditors with similar sampling methods to the first two rounds of audits in an effort to reduce the reported margin of error for the program. In this round 346 audits were performed. The OIG is no longer directing the IPIA effort and will not be reporting on the results of this round of audits. USAC continues to perform audit follow-up work on numerous audits that were either withdrawn or disclaimed upon by the independent auditors. The Commission will review the USAC follow-up work and updated report when it becomes available and provide updated results for this round of audits.

FY 2010 results – The OMD directed USAC to hire an independent firm to identify the error rate of the Schools and Libraries program in accordance with the IPIA requirements and these results should be available in FY 2011.

Low Income

FY 2007 results – As previously reported by the OIG and included in the Commission's FY 2007 PAR, the Low Income program sample design included 60 audits. Each auditee was selected by using a two-stage, stratified simple random sample from a population database of 1,555 Study Area Codes. In FY 2007, the OIG issued a report with initial results that estimated that the improper payment rate was 9.5% with a margin of error of plus or minus 2.1%, and estimated that $75.5 million in improper payments were made for the year tested. On December 12, 2008, the OIG issued "Assessment of Payments Made Under the Universal Service Fund's Low Income Program," concluding that "USAC does not have the source documentation that would permit verification of the calculations of the amounts disbursed" and therefore cannot provide documentation for payments made. The OIG then states that consistent with OMB guidance, "the lack of documentation necessitates a determination that payment made in reliance on such documentation must be considered an erroneous payment." Since the OIG's initial analysis, the Acting Inspector General has withdrawn these results and also informed the Commission as well as members of Congress, through a July 28, 2009 letter, that it is conducting a review of the Low Income disbursement system and will provide a report with its findings, conclusions, and recommendations when that review is completed.

FY 2008 & 2009 results – In FY 2008 and FY 2009, the OIG through USAC's independent auditors did not initiate any additional audits on the Low Income program.

FY 2010 results – The OMD directed USAC to hire an independent firm to identify the error rate of the Low Income program in accordance with the IPIA requirements and these results should be available in FY 2011.

III. CORRECTIVE ACTION PLANS

In developing its corrective actions plans, the Commission is working with the OIG, which was overseeing the audit portion of the first three rounds of IPIA audits, and USAC, which is taking corrective action under the Commission's direction to implement the recommendations of the accounting firms that were contracted to perform specific compliance and attestation audits of the USF programs. As noted previously, the audited payments were from FY 2005 disbursements in the first round of IPIA audits that were conducted through USAC's independent auditors in FY 2007. The preliminary results of the FY 2007 audits showed various instances of non-compliance with the Commission's rules. The Commission understands that a significant area of concern raised by the auditors was a lack of documentation which the auditors could use to determine whether the beneficiaries were complying with the Commission's rules. Since the time of the disbursements which were tested in the first round of audits, the Commission adopted rules to strengthen the document retention requirements applicable to the USF programs. The Commission is interested in pursuing tests of disbursements that were made after these requirements went into effect to determine whether lack of documentation remains a concern.

The Commission has directed USAC to recover all improper payments identified by the auditors in each round of IPIA audits and to develop corrective action plans for all recommendations put forth by the auditors within 60 days. With respect to USF recoveries, the Commission established a self-executing recovery mechanism with the USAC. Thus, to the extent improper payments are discovered, USAC is required to initiate recovery of the improperly disbursed funds shortly after completion of the final audit report. The Commission plans to use this same process for all uncompleted audits.

Furthermore, in FY 2008, the Commission initiated several measures to address and deter potential improper payments in the USF, in addition to the requirement for USAC to recover improperly disbursed funds. First, the Commission required USAC to develop a plan for devoting additional resources to preventing and deterring improper payments. Second, the Commission initiated a *Notice of Inquiry* (NOI) to seek comment from program participants on appropriate follow-up measures resulting from the first round of IPIA audits, including improvements to the appropriate program rules and additional requirements for program participation. Third, the Commission directed USAC to implement a performance-based compensation program that links executive compensation and bonuses to efforts to reduce and prevent improper payments. Fourth, the Commission directed the USAC to report publicly, on a quarterly basis, on its efforts to reduce and prevent improper payments and the costs associated with such efforts. Finally, the Commission strengthened the Memorandum of Understanding (MOU) with the

USAC to require, among other things, performance-based contracting, additional disclosures of contracting actions, enhanced communications requirements, and stronger internal controls. The Commission will continue to review the results of the audits to determine additional steps that can be taken to prevent and reduce improper payments in all its programs.

IV. PROGRAM IMPROPER PAYMENT REPORTING (DOLLARS IN MILLIONS)

FY 2007 IPIA audit results (plus USAC revised estimates)

Program	FY 05 Outlays	Initial FY 05 %	Initial FY 05 $	Revised FY 05 %	Revised FY 05 $
High Cost – USF	$3,748	16.6%	$620	2.7%	$103
Low Income – USF	$796	9.5%	$75.5	Not Complete	Not Complete
Schools and Libraries - USF	$1,630	12.9%	$210	8.6%	$140

FY 2008 IPIA audit results (plus USAC revised estimates)

Program	FY 07 Outlays	Initial FY 07 %	Initial FY 07 $	Revised FY 07 %	Revised FY 07 $
High Cost – USF	$4,166	23.3%	$970.3	Not Complete	Not Complete
Schools and Libraries - USF	$1,682	13.8%	$232.7	Not Complete	Not Complete

FY 2009 IPIA audit results

Program	FY 08 Outlays	Initial FY 08 %	Initial FY 08 $
High Cost – USF	$4,371	Not Complete	Not Complete
Schools and Libraries – USF	$1,740	Not Complete	Not Complete

Notes: As discussed previously, the information in the tables above was generated based upon audits of disbursements made during applicable FY's. The Commission will update the above tables once the results from the rounds of audits are completed.

V. RECOVERY AUDITING REPORTING

The Commission is reviewing the Improper Payments Elimination and Recovery Act (IPERA), enacted July 22, 2010. This new law repealed the Recovery Auditing Act and amended the Improper Payments Information Act of 2002. OMB is planning to release final guidance on the new Act sometime in January 2011. In the meantime, agencies are required to submit action plans that demonstrate how the agency is prioritizing payment recapture activities and it also establishes a framework for agency by agency recapture goals. The Commission continues to review the guidance to develop the best possible approach of meeting the IPERA's goal of reducing and recovering improper payments

VI. MANAGEMENT ACCOUNTABILITY

The Commission is continuing its work with USAC's management to implement performance measurements for program management that will help ensure accountability over USAC's operations and senior leadership. As discussed in section III on Corrective Action Plans, the Commission directed the USAC to implement a performance-based compensation program that links executive compensation and bonuses to efforts to reduce and prevent improper payments.

VII. AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

The Commission will review the revised results of the FY 2008 audits to determine whether a baseline can be established for the High Cost and Schools and Libraries programs. After the results of the FY 2009 audits are completed, the Commission will determine the impact of the baseline results. In the case of the Low Income program, the information surrounding the audit results and the issues that led to improper payments are still under review. Until the Commission establishes its baseline year for High Cost and Schools and Libraries, completes its analysis for the Low Income program, and is able to properly set reduction targets for all three programs based on an understanding of the issues, it is not in a position to know whether or not information systems and other infrastructure changes are appropriate at this time.

VIII. STATUTORY AND REGULATORY BARRIERS

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

IX. ADDITIONAL COMMENTS

The Commission has learned a great deal over the past four years from its experience with the three rounds of audits that were previously overseen by the OIG and used to estimate improper payments. Although these audits were very helpful to the Commission to determine the cause of improper payments and improve internal controls over disbursements, the Commission has decided to implement an IPIA assessment program to more efficiently and effectively determine compliance with IPIA. The Commission has also implemented a compliance audit program that will determine compliance with USF rules and to deter and detect fraud, waste and abuse in the USF program.

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OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: October 15, 2010

TO: Julius Genachowski, Chairman

FROM: David L. Hunt, Acting Inspector General

SUBJECT: Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General is submitting its annual statement summarizing our assessment of the most serious management challenges facing the Federal Communications Commission ("FCC') in Fiscal Year 2011 and beyond.

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

Universal Service Fund ("USF")

The Telecommunications Act of 1996 created the framework for the Universal Service Fund, ("Fund") which consists of support mechanisms for: (1) providing financial support to eligible telecommunications carriers that serve high-cost areas; (2) assisting schools and libraries with telecommunications and internet services; (3) assisting low-income consumers with being able to afford telephone service; and (4) assisting rural health care providers with access to telecommunications and internet services. The Fund is administered by the Universal Service Administrative Company. The Office of Inspector General has initiated and is supporting investigations addressing allegations of fraudulent activity involving the Fund.

Telecommunications Relay Service ("TRS") Fund

The TRS Fund (which encompasses Video Relay Services) was established to compensate service providers for their estimated costs of providing interstate telephone transmission services that enable a person with a hearing or speech disability to communicate with a person who does not have a hearing or speech disability. Distributions from the TRS Fund have grown substantially over the years, with especially significant increases in more recent years. The Office of Inspector General initiated and is supporting investigations addressing allegations of fraudulent activity involving the TRS Fund, as well as issues of program management. Improving the process by which the FCC oversees the program and the manner in which the TRS Fund is administered by the National Exchange Carrier Association is a significant management and performance challenge.

Innovation at the FCC

The FCC recently revised their strategic goals for FY 2011 through FY 2015. The previous goal of modernizing the FCC is no longer a strategic goal. The FCC's new strategic goal for Continual Improvement states that "The FCC is striving to become a model for excellence in government. The FCC will be data-driven in our decision making and is committed to transparent and participatory processes that encourage public involvement and feedback. We will maintain an organizational culture that promotes innovation and accountability."

The establishment of an integrated and streamlined e-government infrastructure was a key component in the FCC's prior modernization efforts and should remain an important factor in the Commission's efforts to continually improve under the new strategic goal. The FCC has initiated several information technology (IT) projects that are designed to improve internal operations and service to the public. One of which is the acquisition and implementation of a new core financial management system. With the increasing demand for accountability and transparency throughout the federal government successful completion of the Core Financial Management System and other IT projects is critical. Management's challenge will be to manage all IT projects in such a way that they will be consistent with e-government principles, are completed on schedule and within budget, and provide the functionalities expected when the projects were started. Specifically, with regard to the New Core Financial Management System, significant management challenges will be to:

- Implement the New Core Financial Management System that remedies the current financial management system's longstanding weaknesses with regard to data integration. The current financial system is not integrated with key FCC systems or the FCC reporting components (i.e., the Universal Service Fund, the Telecommunications Relay Service Fund, and the North American Numbering Plan). Without automated integration of these systems, financial data for FCC's consolidated financial statements must be compiled manually in a complex and time-consuming process. Once the new system is fully implemented we will be able to evaluate its effect on the Commission's ability to produce integrated financial information.

- Maintain effective financial management throughout the implementation period for the new core financial accounting system. The new Core financial accounting system is scheduled to be implemented by mid October.

Lastly, management and performance challenges may arise as a result of the passage of the American Recovery and Reinvestment Act of 2009.

Sincerely,

David L. Hunt

cc: Edward Lazarus, Chief of Staff
Steven VanRoekel, Managing Director
Mark Stephens, Chief Financial Officer

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Office of the Managing Director

M E M O R A N D U M

DATE: November 12, 2010

TO: David L. Hunt, Acting Inspector General

FROM: Steven VanRoekel, Managing Director and Mark Stephens, Chief Financial Officer

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

Management appreciates the Office of the Inspector General's (OIG) assessment of the most serious management challenges facing the Federal Communications Commission (Commission or FCC) for fiscal year (FY) 2010 and beyond. In its October 15, 2010 memorandum, the OIG identifies several management challenges facing the Commission. First, OIG recommends improving the process by which the Commission oversees the Telecommunications Relay Service (TRS) Fund, and the manner in which the TRS Fund is administered by the National Exchange Carrier Association (NECA). Second, OIG recommends the FCC manage its information technology (IT) projects in a way that is consistent with e-government principles so that projects are completed on schedule and within budget and provide the functionalities expected when the projects were started. Furthermore, OIG recommends the FCC implement its new Core Financial Management System, which should remedy the current financial management system's longstanding weaknesses with regard to data integration. OIG also recommends the FCC maintain effective financial management throughout the implementation period for the new Core Financial Management System. In addition, the OIG notes that management and performance challenges may arise as a result of the passage of the American Recovery and Reinvestment Act of 2009. Finally, OIG states that it has initiated and is supporting investigations of fraudulent activity in both the Universal Service Fund (USF) and TRS funds, and is reviewing program management issues related to the TRS fund as well.

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

Before discussing management's response to each of these challenges, management would like to update OIG on its efforts to resolve identified control weaknesses and also provide updates on efforts to improve oversight of the USF. During FY 2010 alone, the Commission closed 29 various audit recommendations, which is indicative of how much emphasis is placed on resolving management and performance challenges. In addition, during FY 2010, management took numerous measures to improve the controls surrounding the Universal Service Fund. The actions that follow are just a summary of the Commission's concerted efforts to improve the USF and Universal Service Administrative Company's (USAC) operations throughout FY 2010:

- The Commission worked with USAC and the Department of Justice in successfully pursuing wrongdoers who sought to defraud the USF. In FY2010, these efforts yielded cash recoveries of $850 thousand and relinquishment of $103 million in additional tainted funding requests pending. The Commission continues to support DOJ in seeking criminal convictions of and civil judgments against defendants charged with E-rate fraud. The FY 2010 caseload consisted of ten active cases that cumulatively involved more than $135 million in claims.
- The Commission directed USAC to comply with federal financial and accounting reporting requirements in Office of Management and Budget Circular A-136, by submitting consolidated financial statements (*e.g*., balance statements, statement of net costs, and statement of budgetary resources).
- The Commission directed USAC to comply with the 2009 Executive Order concerning the Improper Payments Information Act of 2002 (IPIA), which states Federal Government agencies, "must make every effort to confirm that the right recipient is receiving the right payment for the right reason at the right time."[6] In doing so, the Commission directed USAC to implement both an IPIA assessment program and a compliance audit program for the USF and provided guidance on implementation of both programs. In addition, OMD has assumed responsibility for directing and overseeing USAC's implementation of these programs.
- The Commission instructed USAC concerning the appropriate processes for performance, oversight, and follow-up of USF audits. The Commission set forth in detail the steps that USAC should take when performing audits, overseeing audits performed by independent auditors, and resolving audit findings and recommendations concerning the USF.
- The Commission directed USAC and its contractors to comply with the Federal Information Security Management Act (FISMA). As a follow-up, the Commission instructed USAC to develop a plan under FISMA to meet compliance with applicable Federal statutes and regulations, and then implement guidance concerning the acquisition, use and monitoring of IT investments, specifically focusing in the areas of Capital Planning Investment and Control, System Development Life Cycle documentation, IT Security, and Privacy Management. OMD also provided USAC with specific guidance on IT governance under FISMA requirements.
- The Commission issued three suspension orders and three debarment orders against individuals regarding the E-rate program after they were convicted of engaging in fraud or similar criminal acts related to the schools and libraries support mechanism.
- The Commission released six actions taking enforcement against companies that failed to comply with universal service filing and payment rules. These actions include two Notices of Apparent Liability proposing a total of $1 million in forfeitures against NTS Communications, Inc. and Globalcom Inc. These actions resulted in the two carriers paying or committing to pay the USF close to $1.3 million in past due contributions.
- The Commission entered into two consent decrees with carriers ComSpan/Wantel and Comtel. These two agreements resulted in $225 thousand in voluntary contributions to the United States Treasury and the payment to the USF of over $5 million in past due contributions.
- The Commission released two citations against Voice Over Internet Protocol (VoIP) companies, Vocalocity and Transaria, which failed to satisfy their obligations to contribute to the USF. These VoIP companies will be subject to forfeiture proceedings if they violate the Commission's contribution requirements in the future.
- The Commission reviewed and approved USAC's program integrity assurance procedures for the E-rate program.

[6] Executive Order 13520, § 1 at 1 (Nov. 20, 2009).

- The Commission adopted a *Sixth Report and Order* for the E-rate program that, among other actions, improved safeguards against waste, fraud and abuse by codifying the Commission's existing requirement that the competitive bidding process be fair and open. In addition, the Order established rules regarding the receipt of gifts by applicants from service providers.
- The Commission referred certain issues regarding consumer eligibility, ongoing verification of eligibility, and outreach for the Low Income program to the Federal-State Joint Board on Universal Service, all in an effort to ensure that low income support continues to be targeted to those eligible for the program. The Joint Board is expected to adopt a recommended decision on these issues in the very near future, which will trigger a rulemaking proceeding at the Commission.
- The Commission initiated a proceeding that will develop the detailed analytic foundation necessary for the Commission to distribute high-cost funds in an efficient, targeted manner that avoids waste and minimizes burdens on American consumers.
- The Commission initiated a proceeding to reform the Rural Health Care fund to expand the reach and use of broadband connectivity by health care providers throughout the nation. In doing so, the proceeding seeks comment on safeguards against waste, fraud, and abuse for the proposed actions.
- The Commission resolved several contributor appeals clarifying contribution requirements, including issues involving wholesale and resale provider obligations, broadband Internet access services, and prepaid calling card services.
- The Commission initiated immediate corrective action efforts, including recovery efforts of any improper payments in response to the results of the OIG's audit program for USF which included 763 audits of the USF program.
- The Commission conducted a fraud risk assessment of USAC which included USF financial operations, the USF contribution program, the E-rate fund, the High-cost fund, Low Income fund, and Rural Health Care fund.

With respect to improving the process by which the Commission manages the TRS Fund, and the manner in which the TRS Fund is administered by NECA, the Commission has taken several steps to improve the administration of the TRS Fund throughout FY 2010, including:

- The Commission entered into a consent decree with Hands On Video Relay Services, Inc., Go America, Inc. and Purple Communications, Inc. for violation of the TRS rules. This collective agreement requires the entities to pay approximately $22 million to the TRS Fund, resolving Bureau investigations into whether the TRS Fund was being overbilled for artificially inflated TRS usage. This amount includes a $550 thousand voluntary contribution to the United States Treasury.
- The Commission uncovered six violations of the requirement that carriers file FCC Form 499-A, which is used for determining, among other things, a carrier's TRS Fund administration and regulatory fee payments.
- The Commission released a Notice of Proposed Rulemaking seeking comment on various measures to address fraud in the Video Relay Service (VRS) industry.
- The Commission released a Notice of Inquiry seeking comment on broad reforms to the structure and compensation of VRS.
- The Commission performed monthly reviews of the administrative expenses of NECA.
- The Commission conducted a fraud risk assessment of TRS and identified weaknesses to be strengthened.
- This Commission is finalizing a procurement to select through competitive procurement procedures an Administrator of the TRS Fund. By selecting the TRS Administrator in accordance with the Federal Acquisition Regulations, the Commission will improve the

management, administration, and integrity of the TRS Fund and ensure that the Fund will be administered in an efficient, effective manner.

With respect to controlling and managing IT projects in such a way that they will be consistent with e-government principles, are completed on schedule and within budget, and provide the functionalities expected when the projects were started, the Commission has taken several important steps in FY 2010.

On the issue of project control, the Commission is employing both updated policies and management tools to increase transparency and effectiveness of the current control environment. These efforts enable enterprise visibility to all project risks, including cost, performance, delivery, and scope. The implementation of these policies and tools will enable the Commission to manage more effectively and react to risks at not only the project level, but also at the portfolio level. Additional efforts are underway to more completely standardize and consolidate reporting, summarization, visibility, and project oversight, all of which will improve consistency across the control environment.

Through our implementation of an effective e-government infrastructure, the Commission is focusing on the following three critical IT areas to improve management of IT projects:

- Governance – the Commission has procured and is implementing a portfolio management tool that enables the Commission to better align strategic, financial, and tactical activities of the Commission's operations, as well as, providing improved support for the lines of business reported to OMB annually. The tool, coupled with procedural improvements already underway, increases management's visibility of the entire project portfolio thereby enabling the Commission to more effectively assign its limited resources. This visibility is a crucial component of a successful implementation of any e-government solution.
- Common Systems – the Commission has, over the last couple of years, focused on reducing the Commission’s systems portfolio by deploying larger enterprise-based systems and solutions as it retires incompatible, smaller legacy systems. As this effort progresses, the Commission will continue to notice improved communications, interoperability, and agility resulting from solution deliveries based on common, integrated platforms. Projects such as the Consolidated Licensing System (CLS) and mapping are examples of this effort.
- Technical Infrastructure – supporting any successful e-government solution is the technical infrastructure. The Commission has several efforts underway to improve the critical, core components of the Commission’s technical infrastructure. For example, efforts are underway to address an emerging bandwidth shortage, as well as, planning to accommodate future bandwidth needs of the Commission. Additional efforts include: 1) upgrades to the local area networks at headquarters; 2) replacement of the communications (phone) systems; 3) transition to VoIP based solutions for voice and video; 4) server upgrades and replacements; 5) virtualization (server, desktop, and applications); 6) desktop/client side platform upgrade; 7) improvements in remote connectivity; 8) the modernization and consolidation of our computer rooms, and; 9) upgrades to our cyber security systems.

Consistent with OIG’s recommendation, the Commission also spent much of the past FY implementing its new Core Financial Management System which remedies the current financial management system’s longstanding weaknesses with regard to data integration. As a result of this progress, the Commission delivered on its strategic goal of modernizing the Commission, improving the efficiency and effectiveness of financial operations, and replacing disparate financial systems with a single integrated financial system. Through these efforts, we are pleased to report that the Core Financial Management System became operational in early FY 2011. Consistent with OIG’s recommendation, the FCC maintained effective financial management throughout the implementation period for the new Core Financial

Management System. Also, in FY 2011, the Commission plans to continue working closely with its reporting components in their efforts to modernize their financial systems.

Finally, with respect to the management and performance challenges that may arise as a result of the passage of the American Recovery and Reinvestment Act of 2009 (Recovery Act), the Commission is committed to ensuring that all Recovery Act funds received by the Commission are expended responsibly and in a transparent manner to meet the purposes of the Recovery Act. In this regard, the Commission has continued to take the proper steps to ensure the following goals of the Recovery Act are met:

- Funds are awarded and distributed in a prompt, fair, and reasonable manner.
- The recipients and uses of all funds are transparent to the public, and the public benefits of these funds are reported clearly, accurately, and in a timely manner.
- Funds are used for authorized purposes and potential for fraud, waste, error and abuse are mitigated.
- Projects funded under this Act avoid unnecessary delays and cost overruns.
- Program goals are achieved, including specific program outcomes.

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

Steven VanRoekel, Managing Director
Office of Managing Director

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